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MID-SESSION REVIEW OF THE OFFICE OF MANAGEMENT AND BUDGET

Y 4. B 85/2: S. HRG. 104-254

Mid-Session Review of the Office of...

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET

UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

AUGUST 1, 1995



MAR 01 1996

Printed for the use of the Committee on the Budget

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UNITED STATES SENATE
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MID-SESSION REVIEW OF THE OFFICE OF MANAGEMENT AND BUDGET

TUESDAY, AUGUST 1, 1995

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:28 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Nickles, Brown, Gorton, Gregg, Abraham, Frist, Exon, Lautenberg and Conrad.

Staff present: G. William Hoagland, staff director; and Austin Smythe, assistant staff director.

For the minority: William G. Dauster, democratic chief of staff and chief counsel; and Jim Klumpner, chief economist.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. The hearing will please come to order. I apologize for the delay. I think we both were voting. And then I got stopped on the way over.

Senator EXON. No problem. It worked out fine, Mr. Chairman.

Chairman DOMENICI. Welcome, Dr. Rivlin. I have a few opening remarks. If Senator Exon desires to speak, he may do that and let the other Senators hold on theirs until they ask questions. They can use part of their question time for opening remarks. We will try to be as expeditious as we can. This is an obligatory event in the budget cycle. We welcome you here, Dr. Rivlin.

At the outset, let me forewarn that I expect this hearing to be slightly contentious, a little bit more than in your previous appearances before the committee, only because I think we do have some disagreements.

Republicans in Congress are moving forward with implementing the budget resolution we adopted a month ago. And it seems that the Administration has decided, at least, when you listen to the President's language, that he is going to see to it that the budget resolution is not implemented.

Mid-stream in the preparation of that balanced budget, the Administration revised their budget plan. That was in June, just before Congress adopted the budget resolution. And now, at the mid-session review here in August and at the exact time that we are passing the appropriation bills and getting ready for reconciliation, it seems to me that we have to keep our eye on the goal. Much is being offered by way of trying to confuse or distract from that goal.

I wish that was not the case. I believe we still have the only real balanced budget, according to the Congressional Budget Office, and with no assumptions that are optimistic or no dramatic changes in outlays based upon assumptions, rather than policy changes. Dr. Rivlin, you and I go back many years. I think you know that I have high regard for your skills. Sometimes we are all required to say or do things that we would rather not have to say or do. You are the first director of the Congressional Budget Office and the one person who is credited with having created a professional, non-partisan office that people from both sides, Republicans and Democrats alike, have come to respect and admire. For that reason you must be concerned with the Congressional Budget Office analysis of the Clinton administration June budget, because obviously, it does not say what you say.

As you know, when I asked the Congressional Budget Office to review your proposal—and I do not think it is a plan, but a proposal—in June, CBO concluded that not only did your plan not reach balance in 2004 or 2005, which I see here again with your graph, but more importantly, they estimated that deficits would essentially remain near \$200 billion over the next 10 years. So until we can close the gap between OMB and CBO estimates, I think it is easy to understand that the President's current budget will not be receiving much serious attention. And while I hear you all in the White House, and working for the White House, and even the President saying let us work something out, I must suggest that it is very difficult to work something out when we start with the Congressional Budget Office numbers, which we were told to use, and you start with your own.

So I am anxiously awaiting some suggestion from someone on how we might work that out. For without that, it seems there is nothing to work out. We would be working against something that does not get to balance, according to the Congressional Budget Office, and I think you know our dilemma.

I am concerned also, Dr. Rivlin, that reports suggest that every single appropriations bill moving through the Congress is now headed toward a veto. This is even more disturbing when you consider the simple fact that the amount of appropriated monies we are talking about in the year 1996, in terms of outlays, is a very small number. Our estimates are that about \$8 billion in outlays of a total discretionary spending of \$540 billion, or less than 1.5 percent, is all that is at stake in the appropriated accounts of this country.

Now, budget authority is different. But frankly all the threats about vetoing every single bill, I think, center around an \$8 billion disparity in outlays between the President's request and Congress' actions. Outlays, year by year, determine the deficit. I acknowledge, budget authority has a significance over time.

I understand, and you can correct me if I am wrong, that even the lowly legislative branch appropriation bill, which is about to be sent to the President for his signature later this week, which reduces our appropriations by about 10 percent, compared to the 1995 level, that even this bill is being threatened for a veto. Now, I hope that is not true. I thought that never occurred, that there

was comity; you would sign our legislative bills. I understand that is not the case.

It seems that we cannot even cut our own budget up here without the threat of a Presidential veto. I would think, if anything, you would be encouraging us to cut our budget more. On the other hand, it seems that we have got the President threatening to veto appropriation bills on the theory that they do not spend enough money. Now, I have not checked all of history. But that is a rather unique situation. Most of the time, Presidents do not want us spending as much money. This year we have a threat to veto bills because they do not spend enough.

Finally, Dr. Rivlin, the President has been giving some rather strong statements about what we Republicans are supposedly doing to medicare programs. And I do not want to let that pass unchallenged. Estimates that your budget puts forward assume medicare and medicaid costs grow slower than the Congressional Budget Office assumes. I gather that is one reason for this: That you assume that medicare and medicaid, in your new June budget, will spend out less than the Congressional Budget Office estimated.

But what the President failed to discuss this last weekend, while he was out giving speeches on this subject, was the report quietly released by his own Health Care Financing Administration (HCFA) last Friday, announcing that the United States per capita cost factor for medicare payments for 1996 was now in place. In accordance with the law and regulation, the administration estimates that United States per capita cost factor for medicare will increase 10.1 percent over the 1995 level.

I am not sure how this official report has been incorporated into this June estimate of a balanced budget. But obviously, that 10.1 percent add-on, estimated by HCFA and which is what is going to be allowed as the increase, is more consistent with the Congressional Budget Office's estimate of what is happening to medicare than it is with yours.

Now, again, I am not sure that I have this right. Maybe they are two completely different documents that affect two completely different things. I cannot quite see how that is the case. More importantly, I believe this estimate of medicare cost factor that I have just described, which came out of the Health Care Financing Administration, suggests that medicare costs are not slowing and that we are kidding the public if we think that serious reform of the system is not required.

Now, I want to close this statement as I did with the Governors in Vermont, on Sunday. I do not know how this fall is going to turn out. I am concerned enough, though, to suggest that the probability is high that we could once again miss an opportunity to come together and make fundamental changes to Federal spending programs that could lead to a real balanced budget.

I hope we can avoid a meltdown this fall. I am willing to devote myself and my staff, and I am sure many will join me, in trying to find a solution to our differences. But this must start with some common set of numbers. And I do not know how we are going to do that without the common set of numbers. I believe CBO ought to be followed. I said that in our explanation of what it would take to get the parties to the table in an effort to resolve things.

Thank you very much. I now yield to Senator Exon.

OPENING STATEMENT OF SENATOR EXON

Senator EXON. Mr. Chairman, thank you very much. Director Rivlin, welcome once again to the committee. It is always good to have you here. Your insight and your perspective is always important to all of us on both sides of the aisle. I have been listening very closely to my friend and colleague, the Chairman of the committee.

I simply say to him that I believe that there is a train wreck about to happen. In the conversations that I have had with the White House, they, too, are looking for a way out. I do not know whether there is a way out or not, from the train wreck. I would tell my chairman that as near as I am able to ascertain, the President seems to be veto-minded about maybe half of the appropriations bills, which is another way of saying the President seems to think about half the appropriation bills are in the ballpark, things that he could agree with.

I do not know how all of this is going to come out, but I certainly urge the President and I urge the Republican leadership in the House and Senate, sit down and give and take a little on these things. Yes, there is going to be some contentiousness about this hearing today because there are some strong-willed people, including this Senator, who have some very definite views. I would repeat once again that I suspect that we may not have had as difficult a time coming up with a true bipartisan budget approach, notwithstanding what the President recommended, had it not been for the horrendous \$170 billion tax cut. A tax cut that I predicted would go up dramatically after we came back from conference with the House. A tax cut which this Senator, nor none other on this side, had anything to do with it whatsoever. And I am pleased at that. At least our fingerprints are not on that document.

I simply say that as long as we have a \$245 billion tax cut in the 7-year plan, which is devastating to medicare, among other programs, I think the President has not only the duty, but the obligation to carry forth with the veto that he has indicated that he is very likely to pursue. But let me make a few brief remarks. And I will try to keep them as close to point on the things that I have just mentioned as I can. I want to welcome you once again, Director Rivlin, to our mid-session budget review proposal which the Chairman said has to be. I doubt whether anything good will come out of this, but I hope it will.

Today's hearing affords us an excellent opportunity to examine once again not only the President's plan, but the Republican's budget plan in what we might describe as a mid-journey point in time. Your observations about trying to find ways to correct the collision course that I am afraid we are on right now will be most helpful to this Senator. And the sooner we get to some kind of a compromise on these things, as is obviously going to be necessary, the better off we are all going to be, particularly the country.

First, I want to congratulate you and the Administration for the good news that you are bringing us today, as I understand it, thanks in large part to the President's 1993 deficit reduction plan. You now estimate that the accumulated deficit will fall by more

than \$1 trillion, \$1 trillion, over the next 7 years because of the actions taken during this Administration.

It is largely thanks to that effort that we today are able to debate how to balance the budget at all at some time in the future. Some have criticized the President's economic assumptions for being too optimistic. On that score, the most recent economic news is somewhat reassuring. Growth continues, and the economy should continue to grow at a healthy and a steady pace. That is quite a success story in and of itself. And, I suggest, your Administration deserves much of the credit for that.

Now, my Republican colleagues must start laying down the bricks and the mortar, as instructed by their budget resolution. So far, we have seen a little foot dragging, to put it mildly. Even House Budget Committee Chairman Kasich said the GOP leadership should speed up the timetable for medicare reform.

What primarily troubles this Senator is the radical structure that is beginning to emerge. And that begs the question about who will pay for it. During the early debate on the Republican budget, I said that the \$270 billion in medicare cuts needed to pay for the \$245 billion tax break for the wealthy would be taken out of the hides of medicare beneficiaries. I warned that the Social Security recipients who may be living on fixed incomes would be required to pay more of the medicare savings than anyone had anticipated.

I wish my batting average was not as high as it was. But it all seems to be coming home just like I thought it would. The recent release of the House medicare plan should lay to rest any lingering doubts whatsoever. Originally, they pillaged medicare to pay for the tax cut. And that is obviously necessary if they are going to have the tax cut above everything else.

I do not agree, either, with the administration's tax cuts, as the director fully knows from the private conversations that we have had. To pay for the Republican tax cut, though, they would turn our first class Medicare System into a two-tiered health care plan, a plan that treats most of our seniors as second class citizens. It is a supreme irony that under the Republican medicare plans, the only ones who will be able to afford to choose their own doctors will be the people who will get the most from the tax cut, the affluent, of course.

To pay for this \$245 billion cut for the affluent, the average medicare beneficiary will have to pay out \$2,825, as conservatively estimated, over the next 7 years. That is out of pocket, more than many of them clearly can afford. And this burden will not fall on just the Nation's elderly. The adult children of these seniors will often have to foot the bill.

During your testimony today, Mrs. Rivlin, I want you to tell us, would not you agree that there are real cuts in the service in these plans, very much like along the lines that I have suggested. Would not you agree that there are real increases in out-of-pocket expenses? The facts are that under the Republican plans, our elderly are going to pay more for health care and they are going to get less, and be told where to get it and how to get it, and under what formulas.

Coming from a rural State, I am appalled at the heavy hand of the Republican plan adversely affecting rural America. The Repub-

lican standard of choice does not fly very well in rural States like Nebraska. Fee-for-service is often the only option in vast sectors of our rural States and other rural States similarly situated.

I want to welcome you again, Dr. Rivlin. I look forward with great interest to your testimony on the mid-session review and the progress of the Republican budget plan, or lack thereof. Perhaps together, we can throw a few switches and massage a little hard feelings somewhere along the line to avoid the October train wreck that I say is in the offing unless we do something rather dramatic.

I thank the Chairman, and I thank the director.

Chairman DOMENICI. Senator Nickles, I am going to change, since Senators have arrived. They have indicated they would like to speak. And you wanted the chance, if you would like, to make an opening statement.

Senator Nickles.

OPENING STATEMENT OF SENATOR NICKLES

Senator NICKLES. Mr. Chairman, thank you very much. I want to follow your comments and urge Dr. Rivlin and the White House to use the same numbers that the Congress is using. I looked at the President's statement that he made to Congress in a joint session of Congress, probably the most important speech he has made, his first speech to a joint session. He said we should use Congressional Budget Office. I think he was right. And he said we should both be working—he said—his quote, "Let's at least argue about the same set of numbers so the American people will think we are shooting straight with them."

I think he was right again. For the Administration to make that kind of statement to Congress and to the American people, and then to come up and say, well, we are going to use OMB numbers, I think it is very misleading. If we are going to have some cooperation, it is important that we work off the same numbers. The numbers are different. They are also very important.

I am delighted to hear that we are going to have better news for this year, and this year's budget deficit will not be as high as projected. OMB projected the deficit in January. CBO in March said it would be 177. And now OMB says for the year 1995, it would be 160. My guess is that CBO will revise it, as well.

But looking at the chart that Dr. Rivlin has before us, and it talks about the President's 10-year balanced budget plan, CBO says there is no balanced budget plan, according to the President. The President's plan has deficits of \$200 billion for the foreseeable future, including 10 years from now. Clearly, that is not acceptable. That is not balanced. So we need to have some reconciliation with those numbers.

Likewise, with medicare, I heard my colleague and friend from Nebraska talking about how devastating the Republican proposal is. I just looked at the numbers that are in the President's proposal for medicare and the GOP budget resolution that passed. In the next 7 years, the President proposes spending \$1.622 trillion and the Republicans were \$1.697 trillion, a difference of \$75 billion, when you are spending almost \$1.7 trillion.

Let me reverse that. The budget resolution was 1.622 and the President's figure is 1.697 over a 7-year period. When you see the

variances in estimates and so on and you are talking about 7 years, those differences are not that great. But yet, you have had some colleagues and some people talk about the sky is falling and how devastating it is going to be, and so on.

Again, I am just looking at the Administration's numbers and what was in the budget resolution. We should be using the same set of numbers. Mr. Chairman, I am glad you are having this hearing. I appreciate Dr. Rivlin coming before this committee. But if we are going to have a bipartisan working relationship with the White House, and the White House with Congress, I think it is important that we get these things resolved. Maybe even tone down the rhetoric and say let us come up with a common set of numbers so we can resolve things. When the CBO says the President's deficit will continue at \$200 billion in the foreseeable future, for OMB to say, well, we have a different economic scenario and we show it coming to balance, I would ask Dr. Rivlin to give us these figures.

If we used OMB's economics, what would the deficit figures be under the GOP budget resolution. My guess is it would be that we would have a balanced budget in 5 years, and that we would have a tremendous surplus, I believe along the tune of \$200 billion in the year 2002. Again, let us look at those numbers and let us make sure that we work off the same economics, and hopefully work in a more bipartisan fashion.

Thank you.

Chairman DOMENICI. Senator, we are going to go with time of arrival. Were you here next, Senator?

Senator LAUTENBERG. No. I think Senator Frist was.

Chairman DOMENICI. Senator Frist.

OPENING STATEMENT OF SENATOR FRIST

Senator FRIST. Thank you, Mr. Chairman. I commend you for holding the hearings today. And I thank Dr. Rivlin for being with us this morning. Our country clearly faces no greater challenge than balancing our budget. All of us have heard the dire consequences of failing to act. In just 15 years, entitlement spending and interest on the debt will consume all Federal revenues, leaving no money for discretionary spending such as roads, bridges, medical research, national parks.

Statistical realities such as this one remind us of our true moral imperative to balance our budget for current and future generations in this country. The President has stated his commitment to reaching a balanced budget. As Senators, we welcome his support in achieving this historic goal. Unfortunately, the President did not share this goal at the beginning of the year when we began this tough budget process.

The administration's February budget plan left deficits essentially unchanged. Only a little over a month ago, after Congress already made considerable progress on the budget resolution, did the President restate his budget priorities. Even now, I remain concerned with the President's true commitment to a balanced budget. In 1993, the President advocated using the non-partisan Congressional Budget Office numbers in discussing his budget plan.

As Senator Nickles just quoted the President, the President had said, "let us at least argue about the same set of numbers so the

American people will think we are shooting straight with them." But this year, when he released his so-called balanced budget plan, he used estimates from his own cabinet at the OMB.

CBO's analysis of the President's plan showed higher deficits every year, topping off with a \$209 billion deficit in the year 2005. If we are going to shoot straight with the American people, and that is really all that they want, we should use the CBO's reliable, non-partisan estimates.

We have also faced obstacles from the President during the appropriations process. We worked for months to overcome Presidential objections on a rescissions bill to cut just \$16 billion in Federal spending. This rescinded money is not only for deficit reduction, but also fulfills a commitment to help the earthquake victims of California and the bombing victims of Oklahoma City. And almost daily, we hear repeated veto threats from the administration on every appropriation bill, beginning with the modest 10 percent cut in the legislative branch appropriations. We need the administration's cooperation to avoid the consequences of a Government shutdown this fall.

And finally, and perhaps most importantly to this budget, the President has attacked those who want to rescue medicare from impending bankruptcy. During the 30th anniversary medicare celebration just a few days ago, speeches by the President and six others produced an interesting scorecard. The number of medicare trustees who spoke was one. The number of mentions of the word "Republican" was 37. The number of mentions of bankruptcy was zero. The number of mentions of 2002, the year of impending bankruptcy, was zero. And the number of mentions of the trustees report was zero. And the number of specific ideas to save and preserve medicare was zero.

This kind of rhetoric simply, I feel, has no place in our balanced budget debate. The President and the Administration must join us in a bipartisan way if we are to save and to strengthen medicare, and to preserve it for future generations. I thank Dr. Rivlin for being here and look forward to your statements with regard to the President's commitment to work with Congress to restore fiscal responsibility.

Chairman DOMENICI. I think we will go to Senator Lautenberg.

Senator EXON. Mr. Chairman, before we recognize Senator Lautenberg, may I just make a point? I have enough confidence in you that it was not planned that way, but traditionally, we have come here and had opening statements by the Chairman, the ranking member, and then allowed other members expanded time to make their remarks.

More than one member of this side asked me if they would be able to make opening statements. And I said I assume the Chairman will follow the usual procedures. Obviously, from what I have heard here, members on that side came here with written statements, insisting on making them, which was not the case on this side.

I would simply say that in the future, I wish we would know in advance, so that I would be able to tell my Senators on this side that they would have equal time with those on that side. I am not

being critical of the Chairman. I am simply outlining a problem as I see it. And I think if you were sitting here, you would agree.

Chairman DOMENICI. Sort of like your opening statement, excuse me. You want to solve it, but you do not want to solve it.

But anyway, I am sorry about that, Senator Exon. I am very sorry. I think we will give everybody a shot here. And maybe we will say to anybody who is not here yet, we are going to stop with these Senators so we can get to Alice Rivlin.

I had some Senators here that came up. I did not have anything planned. I asked Don Nickles, just in passing, would you like to make a statement; he said yes. I do not think that is a terrible defilement of this chairmanship. And I apologize if it inconvenienced anyone.

Senator Lautenberg, you are next.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thank you, Mr. Chairman, and welcome, Dr. Rivlin.

I am delighted to have a chance to review at midpoint what is happening with the President's economic leadership which we see resulting in reduced deficits. One of the things I think that has to be apparent to the American public is that, as we talk about depriving our children currently by not giving them all of the tax-cut advantage that might accrue when the Republican plan for tax reduction goes into place—and, by the way, if you are children of a wealthy family, you are going to do OK if Papa gives you the 20 grand tax break that he will get if he is making over \$350,000 a year.

But I could not help but think of a personal experience that took place in my house during——

Chairman DOMENICI. Senator, I just want to interrupt for a minute. I think in fairness you ought to address the House tax plan. There is no tax plan in the United States Senate that comes anywhere close to what you are saying.

Senator LAUTENBERG. I accept the interruption. You do have the gavel, Mr. Chairman. But I would submit to you that we sat around in this very room and denied any connection with a tax cut, simply talking about savings that might accrue as we reduce the deficit. And on the other hand, if I am not incorrect, I think I heard the Chairman say in public that, in fact, those surpluses, if any, would be used, could be used to satisfy the need for a tax cut. So we are——

Chairman DOMENICI. Correct.

Senator LAUTENBERG. So we are talking about language that we heard in this place. And I want to say as we plead the case for our children currently, I am reminded of a personal story, a personal event in my household, when my father was desperately looking for work and trying to keep the family in, as we say, bed and board. I took the liberty of cutting school a couple of times and working on a laundry truck to see if I could help out with a modest contribution. Unfortunately, my father found out that I had cut school and, in one of the few times that I remember, was waiting for me when I came in the house and proceeded in very physical terms to describe to me how unhappy he was. [Laughter.]

And he said this to me. I was about 15 years old. He said: If you want to help your family, you stay in school, and you study, and you get an education, and then you help your mother and me and your sister in ways not understood—he did not quite add that. That is my addition.

When we talk about depriving our children, the worst thing that we can deprive them of is an opportunity for an education. The worst thing that we can do is try to fool our senior citizens, to tell them that this is really not a cut that we are rescuing medicare. The way to rescue it would have been to attack it comprehensively in the last Congress. We chose not to do that.

Now, to suggest that unless we rescue it by eliminating much of it, by telling people in their senior years, many of whom now spend 20 percent of their income on top of medicare benefits, that they might have to pay \$3,300 or \$3,500 more for their health care—Republicans say it would be less—the fact is it is going to be a terrible penalty.

What I see, Dr. Rivlin, is the fact that, given some cooperation, we might be able to say to our senior citizens, no, the cuts, if any, are not going to be so drastic, no, that it is not necessary to hand out a tax cut for the rich. They are in pretty good shape in this country as it is. Take it from one who knows. The fact is that we have to be able to continue to work on reducing the budget deficit. Everybody agrees with that. The question is: What is the price that we pay, not today but tomorrow?

I am reminded by my able assistant here. The language from the conference says,

"The conferees agree that the \$245 billion net tax cut represents an appropriate balance between accommodating the tax-cut needs in the House-passed Contract with America and the need to put the deficit on a declining path to a balanced budget in the year 2002."

That is the real story. And when we hear about partisan politics and how the President came so late to the table, I think we have to examine the history just a little bit beyond these few months and get on with really the task of trying to reduce this budget deficit without inflicting so much pain that the patients cannot recover.

Chairman DOMENICI. Thank you, Senator.

Senator Gorton.

OPENING STATEMENT OF SENATOR GORTON

Senator GORTON. Mr. Chairman, I think perhaps that it would be best to begin my remarks, which, Senator Exon, are not in writing, with what we agree on, because it seems to me, in spite of budget speech making, we agree on more things than we disagree on, or at least we agree on them on a more important premise. This was not true the last time we had Ms. Rivlin before us defending the President's original budget with no prospect of ever bringing it into balance. But the President's statement of a few weeks ago that he did believe in a balanced budget, Mr. Chairman, and that he did propose one within a fixed period of time was, I believe, a profound and important and most welcome change of position. Because now, rather than talking about whether or not it is desirable to balance the budget, whether or not it is appropriate and permissible for us to continue spending and loading debt on the backs of our children

and grandchildren, we differ primarily on how quickly we are to reach that balance. And I think it would be inappropriate, even for someone on this side of the table, not to say that this is a very, very significant step forward.

Yet, at the same time, we do have differences, and I think that the differences clearly are more than the difference between a balance in 10 years as against a balance in 7, or even with today's good news, a balance in 9 versus 7, though I suspect that the same projections would mean that our plan is very likely to make it in 6 rather than 7.

I guess I have about four sets of differences between the two of us that I would like to outline, Mr. Chairman. The first, of course, has been spoken to by every member on this side, and that is how we make the projections or the predictions of what the economy is going to do when certain policies will help us to reach a balance. And in this connection, both of my colleagues on either side of me have read the express, the explicit statement of the President of the United States just a couple of years ago in which he desired, I think, with good reason, to stop the argument over those projections and said that we ought to use the Congressional Budget Office, simply so that we had a single standard from which to operate.

Now, we all have that quote from the President, so I do not need to give it again. I suspect we would probably get ten quotes from Ms. Rivlin to that effect while she was in charge of the Congressional Budget Office, that it was a preferable way under which to make these projections.

Now, she will tell us, and she will tell us accurately, that no one can predict what is going to happen 7 years from now with a high degree of confidence and a high degree of accuracy, and, therefore, one set of projections is just as good as another.

Mr. Chairman, I think that begs the question. I believe that it is vitally important that we all start from the same premise, and if, as she believes, ours is too optimistic, that we might actually balance the budget in 5 years rather than 7 because the economy will perform better than we have predicted, well, Mr. Chairman, first that will probably be because we are balancing the budget, and, second, I cannot really think that it would be a disaster to the people of the United States to have a balanced budget in 5 years rather than in 7 or 9 years.

So I would plead, although the plea will not be heard today, but I would plead that in the internal deliberations of the Administration that Ms. Rivlin speak for the proposition that the President keep his commitment of 2 years ago and that we all use the same figures from which to begin. If 5 years from now we have a balanced budget, we will have a President then, some President then, who may very well change some of these policies. Personally, I think that if any part of this Government's spending is being undercut by this plan, it is that discretionary spending which the Chairman must undertake as a member of the Appropriations Committee and all kinds of energy research and water projects, which I must concern myself in connection with our national parks and our cultural institutions and the like, and maybe we will, in

fact, if we do the job right and reform the entitlements correctly, have more money for the infrastructure of the United States.

The second difference between us is evident, though somewhat disguised, in the President's plan in the fact that he leaves almost all of the pain for the President who will come after him even if he is re-elected. In this balanced budget plan, almost all of the real reductions take place after the year 2000, a long way down the road, when another President will, correctly, have the right to set his or her own priorities, where the proposals with which we are dealing say if we are going to discipline ourselves, we have to start disciplining ourselves right now, not simply in the bye and bye.

The third difference, of course, is most evident of the rhetoric over medicare, and I can hardly improve on the remarks of Senator Nickles. This huge difference, this difference which the ranking minority member has told us is the difference between utter disaster in the Medicare Program and what the President proposes is the difference between \$1.69 trillion, I believe—

Chairman DOMENICI. Yes.

Senator GORTON [continuing]. And \$1.62 trillion over this period of time. Come on, give us a break. That is a huge difference in the way medicare recipients are going to be treated? Of course it is not a huge difference. But it is significant when we look toward a balanced budget or toward these other needs.

Finally, of course, there is a difference in the curious passion—and I can only describe it as that—of the other side against the remote possibility that any American should be permitted to pay slightly lower taxes. That is to say, to keep slightly less of the amount that he or she earns by producing for our society for their own use.

This is a real difference between the two sides: one who believes that the decisions are, generally speaking, better made by individuals, that they ought to have the right to keep something of what they earn, and the other that only the Government can spend it wisely.

Now, I must say that will not be as great a difference between us and Ms. Rivlin as it is between us and the other members on the other side, Mr. Chairman. The President has proposed and continues to support a tax reduction, slightly smaller and slightly different in distribution than our own. But it seems to have absolutely no support. We never hear any speeches on the other side of the Senate in favor of that tax reduction at all. It seems to have died aborning. But, nonetheless, that is a significant difference. Those differences are in policy terms, however, Mr. Chairman, far less than the agreement that we cannot keep on going on the same path that we have tried that we must balance the budget. And, presumably, the quicker, the better. If we can only—we can even keep the rest of these differences. If we can only come to an agreement on what figures we ought to use, I suspect that we might be able to reach a goal even of a bipartisan approach toward a goal we all share.

Chairman DOMENICI. Thank you, Senator.

Senator Conrad.

OPENING STATEMENT OF SENATOR CONRAD

Senator CONRAD. Thank you, Mr. Chairman.

First of all, welcome, Ms. Rivlin. You have patience that is really quite extraordinary. I have never heard such lengthy speeches here.

The good news is, obviously, the deficit has improved. The bad news, if I might say it, is, despite all the proud speeches up here about balancing the budget, Congress has not balanced the budget. If you look at their own document, it says in the year 2002 that they are going to have a deficit of \$108,400 billion. That is not a balanced budget. So they keep talking about the balanced budget they have. Their own document shows they have not balanced the budget. The only way they can say they have balanced the budget is by counting the Social Security surpluses. Nowhere else in America would any institution seriously stand up and say they have balanced the budget when what they have done is raid the trust fund of the retirees. But that is what is going on here.

To be direct about it, the President's plan has the same defect, has the same shortcoming. There is only one plan around here that balanced the budget without counting Social Security trust funds, and that is a plan that I offered, along with a group of Democrats, that got 39 votes in the United States Senate. We did not count Social Security surpluses. We reached balance in the year 2004, and we did it without the reductions in medicare of the magnitude the Republicans have called for, without the reductions in medicaid of the magnitude the Republicans have called for, without the deep cuts in education spending the Republicans have called for, which I think represent profoundly misplaced priorities.

They have made those additional reductions in medicare and education and medicaid largely to fund a tax cut which will disproportionately go to the wealthiest among us. The fact is the only place we have got the specifics of a plan on the tax side is in the House, and there we can see the results. If you are a family of four earning \$30,000, you get \$124. If you are a family of four earning \$200,000, you get an \$11,000 reduction. That is their idea of targeting. That is their idea of equity. It is to help out the wealthiest among us to give them the biggest chunk of the pie. I do not think that represents what the American people want.

Again, I think those are priorities that are profoundly wrong.

I would hope that at some point we would come back to a plan that would balance the budget, that would do it by a time certain, that would do it without counting Social Security surpluses, and would do it with a sense of priorities that say to everybody in this society, You ought to contribute to this national emergency; you ought to participate in helping solve the problem. That would be a true American plan.

I thank you for your patience listening to me, too.

Chairman DOMENICI. Thank you very much, Senator.

Did you want to speak? I said you were not going to get a chance, that you were here too late. But if the Senators would not object, could I have Senator Brown speak?

Senator BROWN. No, Mr. Chairman. I would look forward to hearing the testimony of our witnesses.

Senator EXON. The finest speech that Senator Brown ever made. [Laughter.]

Senator BROWN. Thank you very much.

Chairman DOMENICI. As he walked in, he said he had heard longer speeches, and you commented about the length of speeches.

Dr. Rivlin, please proceed.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Dr. RIVLIN. Thank you very much, Mr. Chairman. I will briefly summarize my testimony.

I am very glad to be back before the Senate Budget Committee to present the results of the Administration's Mid-Session Review, which focuses on the President's 10-year plan to balance the budget. I believe we are now all agreed on the goal of balancing the budget. We are simply talking about how to do it, and how quickly we want to get there.

This Mid-Session Review is somewhat different from usual. Normally, the President submits a budget in February, and in mid-July we simply run the new economic estimates through the February budget proposals so that the final decisions can be made in light of the latest estimate. But this year, as has been noted, the Administration produced two budgets. The February budget concentrated on reducing and restructuring discretionary spending. It proposed reducing discretionary spending by reinventing major agencies—like the Department of Housing and Urban Development, Transportation, and Energy, among others—and proposed using the savings partly to pay for a tax cut for average families and partly to reduce the deficit.

Our discretionary spending proposals not only cut the aggregates, but shifted the priorities toward increased spending in education, training, science and technology programs aimed at raising workers' productivity, skills, and wages. The February budget was designed to raise the average standard of living of American families now, and especially in the future.

The February budget did not make major changes in entitlements. As a result, it did not balance the budget. The deficits continued. But the Administration made clear that to reduce future deficits, it would be necessary to address entitlements. The Administration also made clear that we would be coming forth with new proposals, especially in the area of health care and welfare reform.

In June, we fulfilled that promise and sent Congress a new 10-year plan for balancing the budget. The 10-year plan built upon the February budget, extending both the discretionary spending reductions and the tax cut, and continued the President's emphasis on a leaner Federal Government that is more focused on making investments in the future.

The 10-year plan also revisited health care and welfare reform, sketching ways of reducing the growth rate in these entitlements while maintaining vital coverage for the elderly and vulnerable and moving welfare recipients into jobs. It is this 10-year plan that we are considering today.

The Mid-Session Review contains two pieces of very good news. One is that the latest estimates put the deficit for fiscal 1995,

which ends in September, at \$160 billion. That is still a large number, but it represents enormous progress on the deficit since the beginning of the Clinton administration, as you can see on the chart.

The deficit in fiscal 1992 was \$290 billion and, by everyone's estimates, it was headed up. This year, the deficit will be \$160 billion, or 45 percent lower than it was just 3 years ago. It will also be far lower than the estimate we made for 1995 in our original 1993 economic plan. At that time, we estimated a \$242 billion deficit for fiscal 1995.

This Administration has a strong record of delivering on its deficit reduction promises and, indeed, of exceeding them. We have not been rosy estimators. We have consistently, with respect to both the economy and the deficit, done better than our advance estimates.

The President's economic plan, passed by Congress with great difficulty in 1993, has worked directly to cut spending and to increase revenues. It has also worked indirectly to improve the economy and, hence, lower the deficit further. It has laid the foundation, as Senator Exon pointed out, for the deficit reduction plans we are now considering.

The second piece of good news is that our re-estimates confirm that the policies announced in the President's plan to balance the budget would turn the deficit into a surplus by 2005. In fact, we now estimate that the budget would be balanced by 2004. We believe that the President's policies are moderate, sensible, and represent the common ground on which most Americans stand.

The majority in Congress, as has been pointed out here today, want to finance a huge tax cut that goes mostly to people who do not need it. They also want to get to balance more quickly. Hence, they are proposing extreme measures that slash medicare and medicaid and cut deeply into other programs that the Nation needs to advance the economy and increase the standard of living. They would cut deeply into education, training, science, technology, and the environment.

We believe the budget can be balanced without these extreme measures. We are prepared to work with Congress to produce a plan that will balance the budget serve Americans well. We do not want to miss the opportunity, Mr. Chairman, to work with you to craft a balanced budget and avoid the so-called "train wreck" of closing down the Government. Working together, we believe we can do that.

Thank you, Mr. Chairman.

Chairman DOMENICI. Thank you very much.

[The prepared statement of Dr. Rivlin follows:]

TESTIMONY OF
ALICE M. RIVLIN
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
SENATE BUDGET COMMITTEE

AUGUST 1, 1995

Mr. Chairman, Members of the Committee, I am pleased to be here today to discuss the *Mid-Session Review of the 1996 Budget*, which we released yesterday. The *Mid-Session* confirms this Administration's great progress in reducing the Federal deficit and in pursuing government's proper role to facilitate sustainable economic growth.

We project that the deficit for the current year, fiscal 1995, will be \$160 billion -- \$130 billion, or 45 percent, below the record 1992 deficit of \$290 billion that we inherited. We achieved this progress partly through the direct effects of the President's 1993 economic program, and partly through the salutary impact of that program on the economy itself.

Since the President took office, the economy has grown rapidly -- leaving behind what had been a sluggish recovery to approach full utilization of its productive capacity. In the first half of this year, the economy negotiated the difficult transition from rapid recovery to sustainable expansion. Though this process had its inevitable ups and downs, the economic fundamentals -- business investment, export growth, and productivity growth -- remain solid.

As a result, the economic outlook in the *Mid-Session Review* is a favorable one -- little changed from the assumptions in the President's 1996 Budget, released in February. The new assumptions reflect the greater-than-anticipated growth at the end of 1994, and the counterbalancing slower growth in the early part of this year. They also incorporate the lower interest rates that we now enjoy, and the reduction in interest rates that we anticipate will occur with enactment of the President's balanced budget plan.

With this transition from rapid recovery to sustainable expansion behind us, the economy continues to show stability and strength. One manifestation is the continued substantial decline in the deficit, giving us confidence that our long-run economic projections are sound and that our deficit forecast is realistic and attainable.

The President's Economic Program Thus Far

All of this progress did not come easily. Two years ago, responsible observers universally viewed the Federal government's long-term budget outlook as bleak. They foresaw growing deficits in the long run. With no relief in sight, the likely outcome was an explosion of deficits and debt.

By itself, this prospect was troubling enough. But its major implication was even more troubling for the long-run health of our economy, and for the key economic problem before us -- the likelihood of continued sluggish growth in the living standards of average American families. With a large budget deficit draining our nation's saving, the outlook for business investment was poor. Without strong investment, productivity would lag, dampening long-term economic growth and average wages.

Though eliminating the deficit benefits the economy in the long run, it requires actions that have both political and economic costs in the short run. In 1993, the President proposed and Congress passed a major deficit reduction plan. While freezing overall appropriations, the plan shifted priorities, putting more resources into programs that -- like investments in the private sector -- build our nation's productive capacity in the future. These efforts give the private sector the prerequisites -- highly skilled and trained workers, infrastructure, and basic scientific and technical knowledge -- for increasing productivity and wages. Over two years, Congress has approved shifts of about \$15 billion into these investments.

The benefits of the President's 1993 deficit reduction plan are already clear. The economy responded -- far beyond our forecasts. Though some observers predicted job loss -- even recession -- as a result of the President's plan, the economy has grown more rapidly over a longer period than at any time in recent memory. Interest rates fell sharply, spurring an investment boom. With lower interest rates, households and businesses refinanced debt and shored up balance sheets. Rapid economic growth prompted a burst of job creation -- more than 7 million so far, over 92 percent of them in the private sector, well ahead of schedule for the President's target of 8 million new jobs over four years. At the same time, inflation hit bottom and stayed there. As a result, the deficit has fallen even more than we projected when the President submitted his 1993 program; in fact, over seven years, we now estimate that the accumulated deficits will be more than \$1 trillion lower than we originally projected.

In perhaps the best summary of the state of the economy today, Federal Reserve Chairman Alan Greenspan said that prospects for sustained, noninflationary growth are the best in a generation.

The President's 1993 plan is the base upon which we will build future policy. Without this plan, which no Member of Congress in either party proposes to repeal, no plan on the table today would have any chance of balancing the budget in the foreseeable future.

The President's Balanced Budget Plan

Our long-run deficit outlook is much improved, with the nation carrying over \$1 trillion less debt by the year 2000 than anticipated before the President's plan. With no change in policy, however, the deficit will start to rise again in several years, for the same reason that the President pinpointed from the first days of his Administration: rising health care costs. That is why, in his State of the Union message in January and his budget in February, he pledged to work with Congress to develop a new, more incremental approach to health care reform. The President viewed health reform and other savings in entitlements (including welfare reform) as the next major step to finally put the problem of budget deficits to rest.

The House and Senate have adopted a plan to balance the budget. As the Administration said in June in issuing *The President's Economic Plan: A Balanced Budget that Puts People First*, the nation stands at an important moment in its history. For the first time in recent memory, the President and leaders in Congress agree that we must enact a plan to balance the budget. The President stands ready to work with Congress to achieve this important goal.

However, we have grave concerns about the means that Congress proposes. As the President has said, the Congressional Budget Resolution is extreme; it abandons many of our shared goals and values -- the common ground -- that have made this country what it is.

The Resolution seeks to reach balance by 2002, and to provide a huge tax cut whose benefits would flow disproportionately to people of considerable means who simply do not need it. The Resolution then cuts spending deeply to reach balance.

Among the victims are Medicare and Medicaid. The Medicare cuts that the House specified (the Senate gave no hint of its substantive policy) would bear unfairly on the low- and moderate-income elderly, and could severely affect the quality of care. The Resolution's Medicaid cuts reach far beyond levels that any reasonable policy can achieve. They would threaten the well-being of low-income Americans, including the indigent elderly and disabled in long-term care. In addition, they would reduce coverage of children and risk sending those without paid access

into hospital emergency rooms, further burdening the overall health system with costs of uncompensated care.

Another victim is education. As we all know, the fortunes of workers in a knowledge-based economy depend on education and training. Education is among our shared values; it is an important underpinning of the American dream. We surely should not try to balance the budget today at the expense of the skills and knowledge we will need to keep the budget in balance tomorrow. That strategy would defeat the whole purpose of balancing the budget: raising the standard of living for average Americans in the long run.

The Federal role in education is limited but important. The Federal government takes responsibility for preschool education for the disadvantaged, some of the particularly expensive services needed in elementary and secondary education (such as special and compensatory education), and more broadly for the financing of higher education for the low- and moderate-income population.

Without this Federal role, children from low-income families would enter school less well prepared, and local school districts would face the costs of special programs. And in particular, low-income high school graduates -- those without the benefit of a family background of higher education and the clear promise of lucrative job prospects after a college degree -- could easily be deterred by the risk of an accumulation of interest-bearing debt while they attend college. That would not only waste scarce resources; it also would pull a rung from what should be a ladder of opportunity.

We must continue preparing our youth for full participation in our economy. Driven by its arbitrary target for budget balance and its ill-targeted tax cut, the Congressional Resolution would put our progress in education at unnecessary risk.

The President put forward his own balanced budget proposal, one that differs from the Congressional Resolution in two fundamental ways.

1. It does not choose a date for budget balance, then force the policy to meet the date; rather, it chooses policies first, then lets the date flow from them. We found policies that, according to our *Mid-Session* estimates, can reach balance in nine years -- with painful restraint, but not abdications of Federal responsibility in key areas like Medicare, Medicaid, and education.

2. It does not include a large tax cut for people who do not need it. Instead, it continues the more affordable tax cut proposed in the President's February budget, targeted particularly to the education and training needs of average Americans.

The spending cuts in the President's program come in four main areas.

1. The first is discretionary appropriations, where we continue the restraint in the President's FY 1996 budget with savings that amount to \$200 billion over seven years, \$460 billion over 10. These savings involve every area of discretionary spending other than a few priorities, for which the President targets Federal resources to have the greatest impact on future living standards and prospects for long-term growth.

These include education and training, where the President provides full protection for inflation; children; a small number of science and technology research priorities, including biomedical and behavioral research at the National Institutes of Health; crime fighting, with full funding of the Violent Crime Reduction Trust Fund; and environmental protection, with consolidation of the Clean Water and Safe Drinking Water State Revolving Funds. Other programs will feel the continued restraint of the Vice President's effort to reinvent government, which has already reduced Federal employment by 100,000 on the way to eliminating 272,900 full-time equivalents by the end of this decade.

Education and training are prominently featured in this budget plan. The President provides full inflation protection for National Service, the G.I. Bill for America's Workers training programs, and Goals 2000. He provides enough funds for Pell Grants to keep up with inflation and serve the growing student population. We are emphasizing new and more efficient programs, not the more intrusive and bureaucratic initiatives of the past.

To date, Congress has begun implementing its Resolution only with respect to discretionary spending. The early results are most disappointing. For one thing, the Congress' priorities are counterproductive, especially with respect to education and training. Beyond that, Congress has apparently made a special effort to terminate or eviscerate the President's priorities -- especially those that are most reformist, most stimulative of State and local initiative, and most in keeping with the common ground that both parties and the American people have shared for decades -- such as national service and Goals 2000. If Congress really believes in building opportunity, not bureaucracy, and in government close to the people, it should encourage these efforts, not smother them.

2. A second area for deficit reduction is health care. The President has prescribed measured policies to achieve savings in Medicare and Medicaid, accompanied by the first, serious steps toward health care reform. The President's proposed cuts in Medicare -- less than half of those in the Resolution -- would bear solely on providers. According to the Health Care Financing Administration (HCFA) actuaries, whom congressional leaders have recently cited as authoritative, the President's cuts would extend the solvency of the Medicare Hospital Insurance trust fund by three years (to 2005). That would give us the time we need to engage in a studied, bipartisan process to put the trust fund on sound footing for the long run. Though they are much larger than ours, the Medicare cuts that Congress is discussing -- to the extent we know anything about them -- have about the same effect on Medicare trust fund solvency. Much of Congress' savings would come from beneficiaries, adding nothing to the Hospital Insurance trust fund.

In Medicaid, the President proposes \$55 billion in cuts over seven years, \$105 billion over 10 -- less than a third of those in the Resolution. As noted earlier, the cuts in the House Resolution (the Senate was silent here as well) were particularly hard to justify in policy terms. The resulting loss of coverage for our low-income, elderly and disabled populations would most likely cause great hardship, and would eventually simply come back to haunt us in our hospital emergency rooms. Instead, the President proposes automatic waivers for States to pursue managed-care and other service-delivery innovations, repeal of the Boren amendment, and per-person limits on the growth of payments.

The President believes that we should pursue Medicare and Medicaid savings only in connection with health-care reform. The President's proposals for incremental health care reform complement the Medicare and Medicaid savings. They include elimination of the copayment for mammography, and establishment of a respite care benefit, under Medicare; a home- and community-based care grant program for the elderly and disabled; a subsidy for extension of insurance coverage for up to six months for workers who lose their jobs; expansion of the income tax deduction for health insurance premiums of the self-employed to 50 percent; voluntary pooling options for the self-employed in insurance plans available under the Federal Employees Health Benefits Program (FEHBP); and various insurance and small-group reforms and consumer protections relating to portability and renewability of coverage.

3. The third area for new savings is welfare reform. As you know, the President has made a major priority out of reforming the welfare system -- which he believes does not serve any American, even its putative beneficiaries. He issued a welfare reform proposal last year, and his budget refines the proposal.

It includes fraud and error controls, fair and measured restraints on benefits to aliens, encouragement for beneficiaries to move from welfare to work, and investments in necessary child care and work programs. It maintains the nutritional safety net, targets support to the neediest, and protects poor children. We believe that this program is far more sound than the House-passed proposal, which purports to save more than twice as much but would tear apart the social safety net, impose unattainable work requirements, and, at the same time, cut funds for child care.

4. The final area for savings is other entitlements. The President would impose measured restraints in veterans and farm programs, emphasizing greater efficiency and market-oriented choices for agriculture. In student loans, the President would accelerate the transition to direct lending, which cuts Federal costs through efficiency -- without added burdens on student borrowers or their families.

All told, the President's program provides more than \$1.2 trillion of deficit reduction over 10 years, bringing the budget to a small surplus in 2004. The economic assumptions that support this deficit projection parallel those of private-sector forecasts, and are very close to CBO's assumptions. Because those assumptions are the subject of some controversy, they may be worth a closer look.

The Issue of Baselines

As long as the congressional budget process has existed -- about 20 years -- the Administration and Congress have differed over economic assumptions and budget estimates. Appropriately, Congress set up its own estimating authority to provide independent information. Over the years, CBO and OMB usually have had different baseline estimates, though usually the differences were not large.

This year, the estimating differences have two major sources. Different economic assumptions account for about half of the difference in deficit estimates. Different technical estimates of health care spending account for about another quarter. A myriad of other factors account for the rest. These differences are modest.

According to CBO itself, "The economic assumptions of CBO and the Administration appear quite similar. Yet the differences are sufficient to produce noticeable differences in budget projections [*An Analysis of the President's Budgetary Proposals for Fiscal Year 1996*, p. 3] ... The Administration is generally closer than CBO to the *Blue Chip's* [the consensus of private economic forecasters] long-range projections [*An Analysis*, p. 10]."

Differences in the economic assumptions are in fact quite small. For example, for seven of the next eleven years (1995 through 2005), the current forecasts of real economic growth are just 0.1 percentage point apart; for three more years, the gap is just 0.2 points. Furthermore, as you know, Congress does not use CBO economic assumptions in its Budget Resolution. Congress' assumptions are even closer to those of the Administration than are CBO's.

For the Administration's major economic program in 1993, the President said he would use CBO economic assumptions (not CBO technical assumptions or its scoring of individual pieces of legislation) to take that possible source of friction off of the table -- in part because of the previous Administrations' manipulation of economic assumptions in recent budgets. He still released his own economic assumptions that, in hindsight, proved more accurate than CBO's.

Now, the President is fulfilling his obligation to provide his independent assessment of the state of the economy, and to score pieces of legislation for purposes of the Budget Enforcement Act. This Administration has earned credibility by the accuracy and prudence of its forecasts and projections over the past two years.

The Administration-CBO differences on technical health care estimates are also quite small. According to CBO, "Nearly half of the difference in projected spending can be found in the Medicare and Medicaid programs. Although CBO believes that the growth of those programs has slowed from the extremely high rates of recent years, it is not quite as optimistic as the Administration about the slowdown. Given the size of those two programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart [*An Analysis*, pp. 3-5]."

The health care growth assumptions in the Administration's budget are, in fact, very close to CBO's. Both HCFA and CBO anticipate that Medicare and Medicaid spending growth will slow. HCFA projects somewhat more of a slowdown. For Medicare Part A, CBO projects cost growth of 7.9 percent over the next ten years; HCFA projects 7.5 percent. For Medicare Part B, CBO forecasts 12.3 percent growth; HCFA projects 10.9 percent. For Medicaid, CBO expects 9.9 percent growth; HCFA forecasts 9.2 percent. In the words of CBO, "Given the size of those two programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart [*An Analysis of the President's Budgetary Proposals for Fiscal Year 1996*, p. 5]."

Conclusion

In sum, the President's program builds on his success in reducing the deficit in 1993. It takes a responsible, reasonable approach to the problem, proposing very real spending reductions on a scale that is attainable and consistent with the real purpose of deficit reduction: increasing the living standards of average Americans in the long run.

The debate over the budget is heated, and both sides have expressed strong opinions. The rapid responses of some observers suggest again that the President's proposal, as a reasoned and responsible approach to the problem, will take some fire from those who believe that there is always an answer that is quicker, simpler, and more gratifying in the short run. However, I believe, in the final analysis, that the President's plan will be seen to be in the best interests of the country over the long haul.

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Chairman DOMENICI. Senator Gorton, would you like to inquire? Senator GORTON. Senator Frist was here first.

Senator FRIST. Well, I wanted to go to something very specifically, and I will ask a couple questions and then yield.

Dr. Rivlin, it is something that the last time you were here we began to talk about, and it is going to go from your statement from slashing medicare and medicaid down to something fundamental, looking at restructuring so that we really can change the system to preserve it for future generations. It has to do with risk adjustment in the current medicare risk-contracting scheme.

In this risk-contracting program, are payments adjusted now for any beneficiary characteristics?

Dr. RIVLIN. No; medicare, as you know, is primarily a fee-for-service system. It pays the bills. It is not part of a health care plan like the one we proposed last year.

Senator FRIST. And in terms of when we reach out to, for example, adjusting for age and sex and geography, in the adjustment and the formulas that we have today, we do adjust for that, don't we, in terms of reimbursement, in our risk adjustment?

Dr. RIVLIN. I am not aware that we do risk adjustment in medicare. You may be talking about a special plan under medicare that I am not familiar with. But, in general, medicare simply pays the bills as presented, although it has rules about the acceptable reimbursement rates, as you know.

Senator FRIST. Right. We can come back to that. I have a lot of other questions. But the risk select programs do go further down to issues like managed care, coordinated care, as we move into that direction. But we can come back to that.

In the June budget proposal, we would save, according to your plan, \$127 billion in medicare over the next 7 years; is that right?

Dr. RIVLIN. Yes.

Senator FRIST. That is the figure that we are working with. And the statement has been made that none of that savings comes from beneficiaries in the proposal.

Dr. RIVLIN. That is correct. We did not—

Senator FRIST. And have you gotten to the specifics of how that would apply to teaching hospitals? The payments actually made to teaching hospitals, will adjustments be made?

Dr. RIVLIN. No; we have sets of possible changes that would add to our numbers by changing the rules on provider payments. But we have not specified exactly what those are except to say that they are changes in provider payments, not beneficiary cuts.

Senator FRIST. So teaching hospitals would be exempt, or have you not gotten that far?

Dr. RIVLIN. One would have to talk about teaching hospitals and how they would fare under a set of changes in provider payments.

Senator FRIST. And skipping to the Part B premium right now, which is currently \$46 a month, under current law that is scheduled to go down to \$43.70 on January 1st.

Dr. RIVLIN. That is right.

Senator FRIST. Does the Administration intend to lower the Part B premium on January 1st?

Dr. RIVLIN. We are not proposing a change in the current law.

Senator FRIST. So that it would be going down.

Dr. RIVLIN. It does go down.

Senator FRIST. And according to OMB figures, what percent of program costs does that \$46 represent?

Dr. RIVLIN. I would have to check that for the record, but it is in the——

Senator FRIST. It is around 31——

Dr. RIVLIN. In the 25 percent—20-percent something. We will supply that for the record.

[The following was subsequently supplied for the record by Dr. Rivlin:]

The calendar year 1995 premium is \$46.10. This specific dollar amount was established in the Omnibus Budget Reconciliation Act (OBRA) of 1990, and at the time it was expected to cover 25 percent of Part B program costs. However, since passage of OBRA 1990, Part B benefit outlays have grown more slowly than anticipated, in part due to savings proposals enacted in OBRA 1993. Thus, the \$46.10 premium paid by beneficiaries in 1994 actually equals approximately 31.5 percent of program costs. OBRA 1993 replaced specific dollar amounts with a formula that sets the Part B premium at 25 percent of program costs for calendar years 1996–1998. Beginning in 1998, the Part B premium will revert to prior law in effect before the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, which tied premium growth to growth in the Social Security COLA. Because the Social Security COLA is expected to grow at a slower rate than Part B program costs, after 1999 the Part B premium will cover a shrinking percentage of program costs, from 23.5 percent in 1999 down to 19.4 percent in 2002.

The President proposes to extend the OBRA 1993 policy by permanently establishing the Part B premium at 25 percent of Part B program costs after 1998. We believe that maintaining the premium at 25 percent of program costs is the reasonable and responsible thing to do both for the beneficiary and the taxpayer.

Senator FRIST. The figure I have is 31.5 percent, according to CBO figures, but you can provide that later. But the Administration plans to maintain the Part B premium at its current share of program cost, or it will be falling down to the \$43?

Dr. RIVLIN. I had better check this, Senator, but I don't believe that we were proposing to change current law.

Senator FRIST. OK. Mr. Chairman, I will yield.

Chairman DOMENICI. Senator Exon?

Senator EXON. Did you wish to start out questioning? I would be glad to yield to you, Senator Conrad, if you would like, depending on what your time constraints are.

Senator CONRAD. Well, I would appreciate that if that is all right with the ranking member.

Senator EXON. I would be happy to yield.

Senator CONRAD. First of all, I would like to ask you, Dr. Rivlin, what accounts for the rather sharp reduction in the deficit from what was projected? What are the major factors that have accounted for this sharp reduction?

Dr. RIVLIN. Well, the factors that accounted for the drop in the fiscal 1995 deficit were several, as they always are in these things. Increased revenues resulting from the economy's better-than-expected performance account for about a third of it. Part of that is increased revenues from the corporate income tax, reflecting better profits in the economy. Various technical estimating differences account for the two thirds, but some of those also reflect good news. It is the Resolution Trust Corporation getting more money than they expected for the property they owned, which improves the deposit insurance number. It is the Commodity Credit Corporation shelling out less money for agricultural price supports. That can be good news or bad news, depending on where you live, but it reflects higher farm prices due in part to floods and other factors. It is getting more money than we anticipated for the spectrum auction. And it is the passage of the rescission bill, which makes actual cut-backs in 1995 spending.

Senator CONRAD. So we have gone from a circumstance in which the year before this Administration took office we had a deficit of \$290 billion to this year the deficit on a unified basis coming in at \$160 billion. So a dramatic reduction in terms of what we have seen in the deficit.

Dr. RIVLIN. Yes.

Senator CONRAD. How did the medicare and medicaid accounts come in compared to what was forecast? In other words, our medicare and medicaid accounts, were there savings there from what was projected, or are they coming in about as anticipated?

Dr. RIVLIN. They are coming in about as anticipated. But if you go back to 1993, the rates of growth anticipated at that time for medicare and medicaid were higher. medicare and medicaid inflation rates have come down progressively over the last several years.

Senator CONRAD. And what do you anticipate in terms of growth in medicare and medicaid for the future based on a slowing of the increases that you have seen in the near term?

Dr. RIVLIN. The actuaries at HCFA who make these estimates—we do not make them ourselves—believe that they have brought their projections down as the actual rates of cost increase have come down. They are projecting rates of growth in medicare and medicaid which still seem very high. They are in the 9-point-something. But the rates are lower than the actuaries were projecting a few years ago, and that reflects the experience of the economy and those two programs in particular.

Senator CONRAD. Let me go to a different subject. At this point, one would anticipate—Congress has passed its budget resolution, the President has put out a plan. One would anticipate that there would be negotiations between the Republican-controlled Congress and the President with respect to the budget, because we are coming close to the time when there may be a train wreck. The train wreck will be if there is not agreement. A reconciliation package is

offered that includes extension of the debt limit, and if there is not agreement between the White House and the Congress, then the entire Government could shut down. Do you have any explanation as to why there are not negotiations going on right now between congressional leaders and the White House with respect to the budget?

Dr. RIVLIN. We are very worried about the prospect of the so-called "train wreck." The President has urged Congress to move more rapidly, not only on the appropriations bills, but on the reconciliation legislation as well.

Congress set itself a very late schedule for reconciliation. The committees are not asked to report until September 22nd. That does not leave much time for Congress to get together on reconciliation.

Senator CONRAD. How much time do you anticipate that provides?

Dr. RIVLIN. Not enough. If Congress stays on its current schedule, I think it will have to bear the responsibility for closing down the Government or pass a continuing resolution to allow for more time.

I think the basic reason for why negotiations are not taking place is that Congress is moving too slowly. When Congress has a full budget that reflects the decisions on appropriations and reconciliation, the President will want very much to sit down with Congress and work out some compromises. But Congress is moving very slowly, and some in Congress, more in the other body than this one, sound as though they really want to close down the Government, which we think is very irresponsible.

Senator CONRAD. Thank you very much.

Chairman DOMENICI. Senator Exon, let me inquire of Senator Frist if he had any additional questions. Let me tell you my problem. I am supposed to be at a meeting with Senator Dole and a couple of Defense people from both sides. I wonder if you would permit me to go about 7 or 8 minutes, and then I will turn it over to you.

Senator EXON. Sure.

Chairman DOMENICI. Dr. Rivlin, let me first see if I could establish just a couple of concepts that bother me in terms of the debate going on between the two parties. Dr. Rivlin, the President proposes tax cuts; correct?

Dr. RIVLIN. Yes, he does. There are more targeted and smaller than those of the Republicans, but he does propose them.

Chairman DOMENICI. Does that have anything to do with medicare?

Dr. RIVLIN. No; the tax cuts are not part of medicare.

Chairman DOMENICI. So when the other side says the Republicans want to fix medicare but they also want to cut taxes, you want to fix medicare, too, don't you?

Dr. RIVLIN. Yes, we do.

Chairman DOMENICI. And you want to cut taxes also, don't you?

Dr. RIVLIN. Yes; but if one is trying to cut taxes by a much larger amount, then it is necessary to cut medicare by a larger amount. That is what the Republican plan reflects.

Chairman DOMENICI. Now, have you looked at our budget?

Dr. RIVLIN. I have.

Chairman DOMENICI. Are you suggesting that we had to cut medicare more because we are cutting taxes after we get a balanced budget?

Dr. RIVLIN. Well, I think there are differences between the House and Senate on this, but I would suggest that you have to cut medicare more to reach the numbers you want to reach, especially if you have to accommodate a tax cut.

Chairman DOMENICI. That is not true. That is not true. That is not true. If you look at the Republican budget on both sides, we have come to the conclusion that, without any tax cuts, you balance the budget. Tax cuts are totally neutral in that equation. You get to balance. And in that episode you fix medicare, and you have a slight surplus. That is a budget all by itself.

Is not medicare in need of repair and reform, Dr. Rivlin?

Dr. RIVLIN. medicare is in need of repair and reform. Neither the Republican plan nor the Democratic plan address the long-term reform of medicare that will be necessary when the baby-boom generation retires. But both move in the direction of postponing the date at which the trust fund will become insolvent.

Chairman DOMENICI. Don't you, in your revised budget sketch, allow for a logical conclusion that you, too, are worried at the spend-out rate for medicare because we may not be able to meet our obligations in the future?

Dr. RIVLIN. We think medicare spending has been rising too rapidly, but we do not think it is necessary to cut it as much as the Republicans do.

Chairman DOMENICI. So in any event, both of us are saying we want to slow the growth of medicare from its current projections of growth, and some call that cutting, some call it restraining the program or reforming it. But you are trying to do that and the Republicans are trying to do that; is that not correct?

Dr. RIVLIN. But in differing degrees, and there are big differences between our plan and the Republican plan. The Republican plan would cut about twice as much from medicare compared to our plan.

Chairman DOMENICI. I understand, and clearly anybody who is proposing medicare restraint or reform would like very much to tell all the seniors we are taking it all out of providers, we are making the hospitals pay less and the doctors will get less and everything else, and that is essentially what you choose to do in your so-called reforms of medicare. Is that right?

Dr. RIVLIN. Yes; we believe that the reforms of the magnitude that we think is necessary can be done by adjusting provider payments.

Chairman DOMENICI. Now, Dr. Rivlin, it seems to me that what you have done, the Congressional Budget Office told Congress in a letter after the budgets were in, after our budgets were in, that if, in fact, you got to balance—and they gave a path—that there would be an economic dividend. And I am not inventing the word. They call it that. That economic dividend would occur, they say, and allow them to adjust the economics in their budget assumptions principally by adjusting long-term interest rates. And they

said that dividend will be forthcoming if you get to a balanced budget.

Now, did you not take an economic dividend in your proposal?

Dr. RIVLIN. We also believe that long-term interest rates will fall if Congress and the President, together, move to balance the budget. We do not think you have to be at balance to reap the benefit of the long-term rates coming down. I think the history of the last several years shows that. Long-term rates came down as we moved to reduce the deficit.

Chairman DOMENICI. You anticipate my next question. You took the dividend before you got to balance, right? And you just justified—

Dr. RIVLIN. We believe that moving toward balance will bring long-term rates down, yes.

Chairman DOMENICI. The Republican package that we produced in the Senate took no economic dividend until we had produced to the satisfaction of the Congressional Budget Office a series of policy changes, restraints, and reform that gets you to balance. You have chosen to do that as part of getting to balance, as I understand your budget.

Dr. RIVLIN. We did very much the same thing that you did. We assumed that if we were moving toward balance, long-term rates would come down. That is a reasonable thing to assume.

Chairman DOMENICI. Now, a number of Democratic Senators—and I understand their position, but a number of them have equated tax cuts with medicare reform numbers, the dollars that are required in medicare reform.

Might I ask, could we leave tax cuts aside for a bit? Did not the trustees tell you, three of whom work with you as fellow Cabinet members and one is the head person at Social Security—did they not tell you that we had to fix, reform, change the delivery system, change the finance system because medicare hospital was in jeopardy in 7 years? They told you that. They told us that. Right?

Now, let me ask my question—

Dr. RIVLIN. I think you are going a little beyond what they said. They definitely said—and everybody knows this—that if we stay on the same spending track, the Medicare Trust Fund will run out of money. That is a very serious problem. Both the Republican and Democratic plans postpone the date at which that would happen so the Medicare Trust Fund would not run out of money as quickly, but they do not fix it for the long run.

Chairman DOMENICI. But, see, my point is whether you have tax cuts or not, you have got to fix medicare, your way or our way. Your way is to take it all out of the providers, which I do not believe you will end up doing, and I do not believe you could do it. It is way too much of the change coming out of the providers, but that is my opinion versus yours. But I really believe that. But whoever's way you use, that has nothing to do with tax cuts. If you have tax cuts or not, it will not change whether medicare is in trouble or not in trouble, and you acknowledge that in your own budget because you have tax cuts.

Dr. RIVLIN. The larger the tax cuts, Mr. Chairman, the harder it is to get to balance. And the tax cuts that Congress wants are much larger than the ones we have proposed.

Chairman DOMENICI. I want to say to those who are listening that that is not the case in our budget. We reached a balanced budget and in no way considered taxes. And then we went to the Congressional Budget Office, and we said, What does the budget look like now? And they gave us a balanced budget, and they gave us an economic dividend for the balanced budget.

Now, we could have left the economic dividend in place, or we could give it back to the taxpayers by way of tax relief. But it has nothing to do with how much we assumed you had to restrain in Government to get to balance. Besides, we continue a balanced budget by saying you cannot cut taxes more than \$50 billion in the last year because of that the extent of the economic dividend.

Now, I understand your position, but I also think that we are entitled to make our position that medicare is going into insolvency in 7 years, and, in fact, I believe the report says how much it will be short in that year, and it really will not be able to pay its bills.

You may say they have always been telling us that, but I think that is a very dramatic situation as we celebrate its successes, and we are just trying to fix it, and you are trying to fix it partially or less than we are. But I do not believe your tax cuts have anything to do with your saying you had to get \$127 billion in restraint and reform in medicare, and I do not think our tax cuts had anything to do—ours are conditional, they may never happen, but they had nothing to do with medicare. And if you will review our budget, I think you will find that that is a true statement.

Now, having said that, I want to ask, has not the Congressional Budget Office been pretty accurate with estimates recently, even on your latest lowering of the deficit? They were out in front of you a couple times in saying it was going to be less.

Dr. RIVLIN. They were a little more optimistic than we were with regard to the deficit, and they were right. And while I do not want to play the game of dueling estimates, one thing that cannot be said of this Administration is that it has been overly-optimistic. Our estimates, on both the economy and the budget deficit, have consistently been on the conservative side. And things have turned out better than we expected.

Chairman DOMENICI. Well, but the point is even on medicare, the Congressional Budget Office has been very, very close to being right in their projections. The one thing you base much of your getting to a balanced budget here is that you estimate over the 10-year period that medicaid, without doing anything to it, will cost less than the Congressional Budget Office says. That is one of the essential differences.

And I want to ask you, I alluded to HCFA in my opening remarks. That is the Health Care Finance Administration. Their actuaries now estimate that per capita medicare spending will grow 10.1 percent next year. When you count population growth, the increase will be 11.7 percent. That is your estimate. That is consistent with CBO's. They have already done theirs, and they are right on the money. You just came out with yours, and they have theirs. What is predicted is 11.7 percent growth for the year 1996. Is that not correct?

Dr. RIVLIN. All of our medicare projections all come from the HCFA actuaries. We do not make up any numbers. We use their numbers.

Chairman DOMENICI. Can I call them the Administration and CBO is not the Administration? Is that fair?

Dr. RIVLIN. Yes.

Chairman DOMENICI. The Administration's number is 11.7 percent, and that is exactly what the Congressional Budget Office has said. Is that correct?

Dr. RIVLIN. I do not know exactly what they have said or which numbers these are. But, frankly, everybody relies pretty much on the same actuarial projections. CBO has not made a forecast recently that I am aware of. We are still relying on their February forecast. When we did our projection of health care costs, we relied on the HCFA actuaries, and they were a little more optimistic than they had been in the past because the rates had come down.

Chairman DOMENICI. One last question. I am not an expert on medicare. I am not an expert on medicaid. I am finding that whether one is or one is not, one has to learn something about it. And if you learn a little bit, you might be more expert than you think. You probably feel the same way. You have to work on these programs.

But let me just ask you, is it not true that both of those delivery systems, medicare and medicaid, are in need of some change in the delivery system itself?

Dr. RIVLIN. Yes, and we are proposing changes in both.

Chairman DOMENICI. That means that there will not be as much rigidity in the programs and as much fee-for-service in terms of the percentage of coverage as there is today sometime in the future? It will be less. It will be more group coverage, more other kinds of coverage. Is that not true?

Dr. RIVLIN. With regard to medicaid, we are proposing to give the States more flexibility to do a number of things, and an increased use of managed care is one of many options.

Chairman DOMENICI. Is not the reason twofold, that it will be essentially a better delivery system, and, second, that it will save money?

Dr. RIVLIN. Yes, but let us be careful here. medicare——

Chairman DOMENICI. No, I said medicaid. Just medicaid.

Dr. RIVLIN. Yes; I think that is right. But medicare presents us with a very complicated situation because it deals with older people and disabled people, and we have very little experience in using managed care with those groups.

Chairman DOMENICI. Yes, I understand. On the other hand, you have attended meetings and seminars, just like I have, by those who run group services, and they have offered suggestions and proposals, and there are a couple of pilot programs around on medicare and choice instead of just the single program that currently exists, are there not?

Dr. RIVLIN. Lots of people are working on that. Indeed, I am going to a meeting this afternoon to listen to some proposals.

Chairman DOMENICI. And everybody that is working on that is not trying to hurt senior citizens, are they? Those who are working

on it, aren't they working in good faith to get more for the dollar and give them good service?

Dr. RIVLIN. I think we all have to work together on that. I am merely suggesting that it is not simple. I don't think you can just shift medicare recipients into managed care and give everybody vouchers. It is not as simple as that.

Chairman DOMENICI. Yes, it is slow, and we ought to give a lot of time, and I think the budget trend lines on how much you ought to reform the program to make it solvent—and the Republican budget starts with very small savings. You need time to work your way into it, and I assume you would concur that any changes ought to go slow and start small so you get plenty of time for the reform to set in and people to adjust. Is that correct?

Dr. RIVLIN. And I would add that we need to make sure that we are building on good experience and not denying choice to senior citizens.

Chairman DOMENICI. My last question, Dr. Rivlin—and clearly I merely throw it out there because we need your thinking, we need everybody's thinking. They are asking me for mine. When we are so far apart on just where we start in terms of your proposed budget reform and ours, how do we come together without some common numbers? It seems to me we cannot talk to Senators and Representatives and committees when we have two sets of numbers. And when you have a set of numbers that the Congressional Budget Office says never gets to balance and is over \$200 billion forever, to sit down and say let us work something out seems to me is totally clouded by the fact that we do not know what we are doing until we have the same set of numbers.

Are you worried about that as you try to help—

Dr. RIVLIN. I am worried about that, and when we sit down in a negotiation—and I hope we do—to work out the differences between the two budgets, the first thing we'll need to do will be to come to an agreement on a common baseline. I do not think that will be very difficult. The assumptions under these two baselines do not differ very much.

Chairman DOMENICI. Thank you very much.

Thank you, Senator Exon, for your indulgence.

Senator EXON. Thank you, Mr. Chairman.

Chairman DOMENICI. You are going to be in charge, Senator Frist.

Senator EXON. Let me ask you a few questions to try and set the parameters, because we are talking all over the lot on these things. For the life of me, I do not quite understand why continually when I talk about the \$245 billion tax cut for 7 years in the Republican proposal—let's not confuse that with the original House proposal or the original Senate proposal, which was \$170 billion that is siphoned off over in the corner some place. I do not think it was ever clearly understood how it was siphoned off over in the corner, but it was over there and it was sold on the basis that, well, we are not going to make any tax cuts until we are assured that we are on the road path to a balanced budget.

Let me ask you, Director Rivlin, don't the tax cuts begin under the Republican proposal, the one passed by the House and the Senate in the conference committee without Democratic input, don't

those tax cuts begin to take place under the Republican budget well before they balance the budget?

Dr. RIVLIN. Yes; as I understand it, CBO is asked to certify that the balance will occur in the future. After they certify it, the tax cuts go into effect.

Senator EXON. One other thing I cannot quite understand. If you do not use the \$245 billion in tax cuts, could not you use the total \$245 billion, or some portion of it, to alleviate or create the cuts that the Republicans are proposing in medicare?

Dr. RIVLIN. Yes; I would think you could, because then it would be easier to get to balance.

Senator EXON. I would think you could, too. But every time we bring that up, you would think we were trying to play football under baseball rules. I do not quite understand it. It seems to me since the tax cut is an integral part of the Republican budget and is an integral part of the Administration budget—let me set the record straight on this.

The Republicans proposed a \$245 billion tax cut that I am still convinced, and they have not said to the contrary, that it is skewed very dramatically to the highest income Americans. That is what is wrong with it, in this Senator's opinion, in addition to the fact that I think it is unconscionable to be talking about tax cuts at the same time you are going to try to balance a budget that we all recognize is way out of control.

But the \$245 billion that the Republicans have agreed to between the negotiations between the House and the Senate, over a 7-year period, compares with what in a tax cut in the billions of dollars for the same period in the Administration's suggested budget?

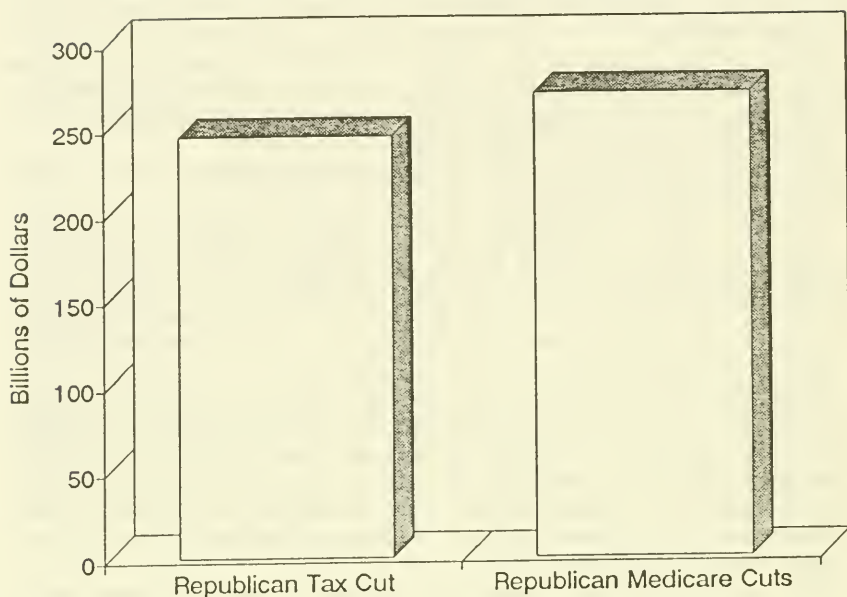
Dr. RIVLIN. About \$100 billion over 7 years.

Senator EXON. About \$100 billion, as opposed to 245?

Dr. RIVLIN. Right.

Senator EXON. Thank you very much. I would like to try and call your attention to this chart that I have up here, that I have never been able to quite understand. These are medicare cuts that obviously pay for the tax cuts, the Republican tax cuts that we have just substantiated as \$245 billion over 7 years. And the Republican medicare cuts over the same period of time are \$270 billion. You know, give and take a few billion here and a few billion there, they are about the same.

Republican Medicare Cuts Pay For Tax Cut for the Wealthy



You, as an expert on the budget, do you think it is unfair, either from the standpoint of the Administration's budget or from the standpoint of the Republican budgets to say that if we did not have this Republican tax cut that basically benefits the higher income people of \$100,000 or more—the last figures I saw indicated that about over half of that Republican tax cut would go to citizens in our country that make over \$100,000 a year.

If we did not have that, would it not be safe to say, Dr. Rivlin, an expert on the budget, that we could, if we did not have that tax cut, dramatically reduce, if not eliminate, most of the cuts in medicare, if we wanted to?

Dr. RIVLIN. Yes; and I do not think it is a question that only an expert could answer. I think it's fairly obvious that cutting taxes makes it harder to balance the budget. If you cut taxes less, then you do not have to cut spending as much. In the Republican plan, the tax cuts, which go largely to the wealthy, are of roughly the same magnitude as the cuts in medicare. If you were to offset those two, it would be asiere to get to balance, without the tax cut, and it would make it less necessary to cut medicare.

Senator EXON. Thank you, Dr. Rivlin. I guess what you are saying, this is not calculus then. This is sixth and seventh grade arithmetic.

Dr. RIVLIN. I think so.

Senator EXON. Let me ask you about this, because there has been a great deal of talk about the growth in medicare spending in the Republican budget resolution. The administration and those of us who did not go along with the Republican budget are accused,

and I think falsely, of wanting to ignore the problem we have in medicare.

We received testimony in front of this committee. It is generally agreed, and I think your testimony today would conclude that at least the responsible people, regardless of their party affiliation, have indicated that the trust fund for medicare would be in dire straits in here in the year 2000, 2001; is that right? I mean, very, very low, if not near bankruptcy.

Dr. RIVLIN. Yes; the trustees' report indicated that the Medicare Trust Fund would run out of money in 2002.

Senator EXON. Now, the Republicans seem to claim—and I have heard them say on the floor of the Senate, debate in the Budget Committee, that we Republicans are the ones that are being honest and respectful, and facing the problem. As I understand the Republican budget, indeed, they begin to make some changes in that 3-year period, roughly from the year 2001 up to the year 2004. They do give a little bump at a little more security. But thereafter, I suggest that under the Republican plan, the changes that they say that they are making "courageously" are not very courageous when you look at what would happen after those years that I have just mentioned; is that correct?

Dr. RIVLIN. Yes; I think that is right. Neither the President's plan, nor the Republican plan, will extend the life of the trust fund very far. While the Republican cuts are larger, a significant portion of them fall on beneficiaries and Medicare Part B. And cutting Part B does not help the Part A trust fund, which is what we are worried about.

Senator EXON. Dr. Rivlin, let me ask you this question, which I think begins to try and get at the heart of the difficulties that we have. On Saturday, the President released a new analysis, as I understand it, of the Republican proposal to cut medicare by \$270 billion over the period that we are talking about. This study said that reductions of this size would push 500,000 elderly Americans into poverty and raise out-of-pocket expenses by an average cost of \$625 each per year.

Can you tell us if I have correctly stated what I got from the President's statement? And can you tell us more about this study so that those who wish to question it, that have some reason to go after some of the people who have helped put together the report that the President made on Saturday?

Dr. RIVLIN. I can supply the study for the record, Senator. I think its basic point is that while some elderly people have plenty of money, most do not. And the kind of medicare cuts the Republican plan proposes would raise the out-of-pocket expenses of low income elderly people, and push a large number of them across the poverty line. By that definition people who are just barely making it would see their out-of-pocket costs go up and be pushed into poverty.

[The following was subsequently supplied for the record by Dr. Rivlin:]

White House Medicare Briefing Document

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White House Medicare Briefing Document

REPRODUCED FROM THE OFFICE OF THE CLERK

Outline

- I. The Two Parts of Medicare and the History of the Part A Trust Fund
- II. Clinton Administration Response to Trust Fund Problems (1993, 1994)
- III. The Current Financial Status of the Part A Trust Fund (1995)
- IV. The New Republican Congress and the Trust Fund (1995)
- V. Clinton Administration Response to Trust Fund Problems (1995)
- VI. The Republican Budget Resolution
- VII. Current Clinton Efforts Compared to the Republican Efforts
- VIII. The Republican Budget Resolution -- Overly Tight Growth Rates
- IX. Why Increase In Per Beneficiary Spending is a Cut
- X. Republican Vouchers and Overly Tight Growth Rates
- XI. Republican Vouchers vs. The President's Plan

The Two Parts of Medicare:

Hospital and Physician Services

The Medicare program has two distinct parts:

- **1. Hospital insurance [HI] or Part A**
 - Part A pays for mostly inpatient hospital care.
- **2. Supplemental Medical Insurance [SMI] or Part B**
 - Part B covers physician services, along with outpatient hospital services, laboratory services and durable medical equipment.

The Two Parts of Medicare:

The HI program -- Part A

- **The HI program** is funded through the HI trust fund. The Fund receives most of its income from the HI payroll tax (2.9% of payroll, split between employers and employees).

- The HI or Part A Trust Fund is the fund that is characterized as "going broke" by the Congressional Majority.

The Two Parts of Medicare:

The SMI program -- Part B

- **Part B** is funded through the SMI Trust Fund. The Fund receives income from two primary sources: a general revenue transfer and premiums paid by enrollees.

- Part B premiums are directly deducted out of the monthly checks of Social Security beneficiaries. Therefore, increases in premiums decrease total dollar amount of the Social Security check.
- While SMI or Part B Trust Fund growth effects deficit spending, it does not threaten SMI solvency and the SMI trust fund could never become insolvent (unlike the HI trust fund).

The History of the Part A Trust Fund

Financial Status

- As the table on the following page demonstrates, the Medicare Part A trust fund solvency challenges are not new.
- On nine separate occasions, the trust fund has been projected to be insolvent in 7 years or less.

FUND INSOLVENCY

Report Year	Projected Year of Insolvency	Years Until Insolvency
1970	1972	2 Years
1971	1973	2 Years
1972	1976	4 Years
1973	None Indicated	N/A
1974	None Indicated	N/A
1975	Late 1990s	N/A
1976	Early 1990s	N/A
1977	Late 1980s	N/A
1978	1990	12 Years
1979	1992	13 Years
1980	1994	14 Years
1981	1991	10 Years
1982	1987	5 Years
1983	1990	7 Years
1984	1991	7 Years
1985	1998	13 Years
1986	1996	10 Years
1987	2002	15 Years
1988	2005	17 Years
1989	No Report	No Report
1990	2003	13 Years
1991	2005	14 Years
1992	2002	10 Years
1993	1999	6 Years
1994	2001	7 Years
1995	2002	7 Years

Clinton Administration Response to Trust Fund Problems (1993)

ISSUES IN THE CLINTON ADMINISTRATION

- At the beginning of the Clinton Administration, the Trust Fund was projected to go insolvent by 1999.
- The President's 1993 five-year deficit reduction package (OBRA '93) extended the life of the trust fund by an additional three years -- to 2002.

No members of the current Congressional Majority supported the 1993 deficit reduction bill.

Clinton Administration Response to Trust Fund Problems (1993)

The extra three years were derived from:

1. Constraining the growth of Medicare, primarily through specific provider cuts.
2. Repealing the maximum earnings cap for the Medicare HI payroll tax.
3. Increasing the percentage of Social Security benefits of well-off seniors subject to taxation and dedicating that revenue to the HI trust fund.
4. Economic growth partly spurred from the deficit reduction bill

Clinton Administration Response to Trust Fund Problems (1994)

- The Clinton health reform plan would have delayed insolvency an additional five years past the current date of 2002.
- In addition, the Clinton health reform package would have addressed the Trust Fund problem in the context of the entire health care system.

The Current Financial Status of the Part A Trust Fund (1995)

- The Medicare Trustees, using intermediate assumptions, concluded that the HI Trust Fund will be depleted in 2002.
 - The projected year of trust fund exhaustion measures how long financial resources exist to pay bills. In other words, as long as the trust has sufficient resources, bills are paid. **The trust fund has never reached exhaustion.**
- The program faces a long term insolvency crisis because of the demographic shift that will occur with the aging of the baby boom population. The first baby-boomers will reach 65 in the year 2010.
- Neither Democrats or Republicans resolve this issue in their balanced budget proposals, but both agree that a bipartisan approach is essential for addressing this challenge.

The New Republican Congress and the Trust Fund (1995)

- The only thing that changed between the 1994 Trustee Report and the 1995 Trustee Report is that the 1995 report showed a one year improvement from 2001 and 2002.
- The only specific component of the Contract with America that addressed the Trust Fund made it worse.
 - ~ The Contract called for repeal of the increase in the Social Security benefits tax for high income seniors -- a provision that helped improve the financial status of the trust fund. The repeal passed the House on April 5, 1995.
 - ~ If this provision is enacted, the trust fund will become insolvent 8 months sooner.

Clinton Administration Response to Trust Fund Problems (1995)

- **The Clinton balanced budget** would extend the life of the Trust Fund through 2006. This proposal reduces HI Trust Fund spending on providers. [See attached letter from the HCFA Chief Actuary confirming 2006 Trust Fund status.]
- With the trust fund secure for better than 10 years from today, we are in the same situation we have been in before, many times, since 1970. This provides significant time for a bipartisan approach to address the long term Trust Fund issue.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator
Washington, D.C. 20201

August 3, 1995

The Honorable Richard A. Gephardt
United States Senate
Washington, D.C. 20510

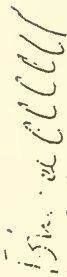
Dear Congressman Gephardt:

This is in response to your request for information about the effect of the Medicare savings in the President's balanced budget initiative on the exhaustion date of the Hospital Insurance (HI) Trust Fund.

Attached is a memorandum that I have received from the Chief Actuary of the Health Care Financing Administration (HCFA). The memo indicates that the year-by-year savings in the President's plan would extend the life of the HI Trust Fund from 2002 to the fourth quarter of calendar year 2006 (the first quarter of fiscal year 2007). This estimate is based on the 1995 Annual Report of the Board of Trustees of the Federal Hospital Insurance Fund intermediate assumption baseline.

Please let me know if I can provide any further information.

Sincerely,



Bruce C. Vladeck

Attachment

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care
Financing Administration

Memorandum

August 2, 1995

Chief Actuary, HCFA

Estimated Year of Exhaustion for HI Trust Fund under Administration's
Balanced Budget Proposal

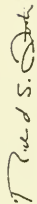
Administrator, HCFA

The purpose of this memorandum is to respond to the requests from Senator Daschle and Representative Gephardt for the estimated year of exhaustion for the Hospital Insurance trust fund under the Medicare provisions in the Administration's balanced budget proposal. Based on the intermediate set of assumptions in the 1995 Trustees Report, we estimate that the assets of the HI trust fund would be depleted in the fourth quarter of calendar year 2006 under the Administration's proposal (or, equivalently, in the first quarter of fiscal year 2007).

In the absence of corrective legislation, trust fund depletion would occur in the fourth quarter of calendar year 2002 (first quarter of fiscal year 2003) under the intermediate assumptions. Thus, the Administration's proposal would postpone the year of exhaustion by about 4 years.

The financial operations of the HI trust fund will depend heavily on future economic and demographic trends. For this reason, the estimated year of depletion is very sensitive to the underlying assumptions. In particular, under adverse conditions such as those assumed by the Trustees for their "high cost" projections, asset depletion could occur roughly 2 to 3 years earlier than the intermediate estimate. Conversely, favorable trends could delay the year of exhaustion significantly. The intermediate assumptions represent a reasonable basis for planning.

The estimated year of exhaustion is only one of a number of measures and tests used to evaluate the financial status of the HI trust fund. If Senator Daschle or Representative Gephardt would like additional information on the estimated impact of the Administration's Medicare proposals, we would be happy to provide it.



Richard S. Foster, FSA

Clinton Administration Response to Trust Fund Problems (1995)

- The Clinton Balanced Budget calls for \$124 billion in savings -- less than 1/2 of the Republican Balanced Budget.
- Twenty percent of these savings are simply from extension of current laws -- which both the President and the Congressional Majority support.
- All new savings are from providers, and \$89 billion goes to Part A Fund, pushing the insolvency date back to 2006.

The Republican Budget Resolution

- The Republican budget resolution would cut the Medicare program by \$270 billion.
- The Republican budget resolution would also extend the life of the Trust Fund through at least 2006, and likely somewhat longer.
 - However, it is impossible to project for much longer without more detail about the allocation of cuts between Part A and Part B.
- **The size of the Republican cuts are excessive**, and drafts of their plan confirm that they are considering substantial out-of-pocket increases through higher premiums, co-payments, and deductibles.

The Republican Budget Resolution -- Beneficiary Impact

REPUBLICAN BUDGET RESOLUTION

The Republican Medicare working document provides a preview of what is in store for beneficiaries who want to keep their fee-for-service plans. Specifically, preliminary estimates indicate that:

- The average Medicare recipient of skilled nursing home services will pay at least \$1,400 more in 2002.
- The average beneficiary receiving home health care services will pay at least \$1,700 more in 2002.
- The average beneficiary choosing to stay in the fee-for-service plan would pay at least \$2,825 more in premiums and copayments over 7 years; couples would pay at least \$5,650.

The Republican Budget Resolution -- Harming Vulnerable Elderly

- The cuts shift costs to seniors who on average, are already spending 21 percent of their income out-of-pocket on health care.
- Since 75 percent of these beneficiaries have incomes below \$25,000, it is hard to see how they can afford to pay more.
- The Republican cuts exceed the extenders on which we all agree by \$240 billion -- just about the amount they need to finance their tax cut.

The Republican Budget Resolution -- Part B Cuts Don't Help the Trust Fund

- A substantial portion (most likely more than \$100 billion) of their Medicare cuts come from Part B of the program. Savings from Part B savings do nothing to strengthen the Part A trust Fund.
- More specifically, the Republican Working Document calls for significant increases in Part B premiums, deductibles, and co-payments.
- So, for example, not one penny of the Part B Premium increase alone of \$1650 (\$3300 for couples) would contribute to strengthening the Medicare Trust Fund.

Current Clinton Efforts Compared to the Republican Efforts

The real issue is how much more is needed to shore up the trust fund and responsibly manage the program.

The President's proposal is a responsible approach to achieving these objectives:

- ✓ First, better than ten years of trust fund security is consistent with many periods in our history and adequate to allow Medicare's adaptation to the future.
- ✓ Second, more than this level of cuts might buy a few more years for the trust fund but would endanger the protection Medicare provides and the institutions and caregivers that serve Medicare's beneficiaries.
- While greater reductions might help for a few years, they are not real solutions and will cause long-term damage to the structure of the Medicare program.

The Republican Budget Resolution -- Overly Tight Growth Rates

- The Republicans claim they want to emulate the health care cost containment successes of the private sector. They suggest that vouchers be used to increase current Medicare beneficiary participation in Managed Care plans.
 - The expectation is that this will result in reduced Medicare expenditures and growth rates.
- Emulating the private sector and permitting Medicare to grow at a 7.1 percent pace -- the projection of the per person growth rate in the private sector of the CBO baseline -- would save significant federal dollars.
- However, the Republican \$270 billion in cuts would constrain Medicare to a much tighter and unrealistic 4.9% per beneficiary growth rate.

Why Increase In Per Beneficiary Spending is a Cut

The Republicans say they will increase Medicare spending by \$1,900, from \$4,800 per beneficiary now being spent to \$6,700 in 2002. Yet, this amounts to a cut.

- This is a cut because you cannot buy today's Medicare benefits with this amount of money in 2002. Beneficiaries will pay substantially more or get less benefits.
- \$6,700 is about \$1,000 less per person than what it would be EVEN IF Medicare spending were constrained to 7.1 percent private sector per person growth rate.
- And remember, the Congressional Majority wishes to constrain the growth rate well below the private sector even though Medicare beneficiaries are, by any definition, a much more difficult to manage and expensive population than those with private insurance.

The Republican Budget Resolution -- Vouchers and Overly Tight Growth Rates

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- Under the Republican Medicare restructuring plan, beneficiaries who wish to keep their fee-for-service plan and a guarantee of their choice of doctor, will have to pay significantly more.
- In order for a voucher system to achieve savings, beneficiaries who go into managed care plans will either have their current benefits reduced or will be forced to pay more for the same benefits. This is because the Republicans' overly tight growth rates will over time diminish the value of the voucher and the type of coverage it can purchase.
- In this environment, there would be overwhelming pressure on plans to avoid the elderly and sick, and "cherry pick" young, healthy beneficiaries.

The Republican Budget Resolution -- Vouchers and Overly Tight Growth Rates

- Addressing these problems would take significant regulatory interventions such as risk adjustment to pay for elderly, sick individuals. It would also require a more realistic growth rate. Both needed changes would increase costs and decrease managed care savings.
- Respected health care economists such as Robert Reischauer and Henry Aaron, as well as the Congressional Budget Office, have consistently stated that managed care that adequately protects beneficiaries are not likely to produce significant federal savings over the short term.

Republican Vouchers vs. The President's Plan

- The President's approach shows that you can strengthen the Medicare Trust Fund, offer more choice of plans, and provide new benefits without imposing new Medicare beneficiary cuts.
- The President's balanced budget also expands choice for beneficiaries by providing for a new Preferred Provider Organization option and authorizing HMOs to offer choice of doctor options through Point of Service plans.
 - However, it does this without financially coercing beneficiaries into plans.

Senator EXON. Well, let me wind this up if I can, doctor. The Republicans seem to claim that they need to cut medicare in order to save the program, save the program. The Republicans are the only ones that want to save the program. The Democrats, who are the ones that invented this system over Republican opposition in the first instance, are supposed to be those irresponsible nudniks that want to sit by and let the system go kaput.

Yet if I understand the Republican's plan, and I do not want to be unfair to them—Lord knows, I do not want to be unfair to Republicans. That is the last thing on my mind. Yet it seems to me that their plan merely postpones, postpones medicare's bankruptcy for about 3 years, about the same period as what the President does with a much smaller cut.

Based on what you know about the Republican proposals, is there any indication that they have "saved" medicare from bankruptcy in the long term?

Dr. RIVLIN. No; I do not think they have saved medicare from bankruptcy in the long term. And I think we are going to have to face up to the fact that there is a long-run problem in the Medicare Trust Fund and it is going to have to be solved on a bipartisan basis.

Senator EXON. My last question has to do with the legislative affairs matter that was brought up very early in our deliberations this morning. The legislative affairs appropriation has been moved rapidly forward and is being moved through both the House and the Senate, as I understand it, and will be presented to the President for his veto.

I have the impression that one of the reasons that the Republican leadership in the House and Senate wanted to get that legislative appropriation measure out of the way quickly was so that it might escape the train wreck that is going to happen a little bit later on. Is that suspicion on my part shared by you, or had you not thought of anything as devious as that?

Dr. RIVLIN. Well, it certainly worried—

Senator EXON. And second, do you think the President is likely to veto the legislative affairs appropriations, and if so, why?

Dr. RIVLIN. Well, this morning the President announced that if the legislative appropriation was sent to him ahead of all the other appropriations bills, he would veto it. It is a timing question. The President feels that Congress has been rather slow in working on appropriations. The only one of the 13 bills that seems to be of such high priority that Congress wants to get it to the President before the August recess is the legislative appropriation.

The President believes that should be the last appropriation bill, not the first. And he has said clearly that if he gets it now, he would veto it. And there is this suspicion that maybe Congress wanted to do its own business before doing the public's business and make sure that everybody up here would be paid, even if the government were closed down because Congress failed to finish its work on the rest of the appropriations bills.

Senator EXON. Strange that only you and I, and the President, were smart enough to think of it. [Laughter.]

Mr. Chairman, thank you very much.

Senator FRIST [presiding]. Thank you.

Senator Gregg?

Senator GREGG. Well, there is certainly a lot of tempting ground to step on after that exchange. It is nice to know that the Administration is interested in cooperation and bipartisan activities. When they make such an allegation as that, I find it a little unbelievable that there is really a sense of bipartisanship at all in the administration about it. We might suggest that this appropriation bill went through because it cuts the legislative budgets rather dramatically, and it is our job to cut ourselves first if we are going to ask others to be cut. The concept that you are up here posturing in a bipartisan manner after making that sort of statement is, I believe, a little absurd.

Reflective, I think, of this administration's attitude generally is that it says one thing and does the opposite. It says it wants to address the issue of medicare and resolve that problem. And then it comes out and savages those who make proposals right along the line of what is discussed occasionally even by the Administration, such as, for example, using some sort of fixed-fee approach to reimbursements, such as managed care.

So I find your testimony to be inconsistent in light of that last question, and disappointing, to say the least, because I had not expected it from you, because I had a lot of respect for you. I have, on a number of occasions, applauded your efforts to try to address these issues in what I thought was a constructive way. But there does not appear to be much constructive attitude coming out of the Administration, in light of that statement. I find that extremely disappointing, because there are some of us who would like to see this issue resolved, to recognize that the Medicare Trust Fund is in serious trouble, to accept the representation of your own trustees, who worked for you folks, who have said that the trust fund is in serious trouble and that this is not a question of tax cuts versus trust fund solvency. This is a question of how you make a trust fund solvent that is headed toward bankruptcy because it is simply spending more than it can afford. It has got a rate of growth that cannot be sustained.

Is it the administration's position now that a 10 percent rate of growth can be sustained? Of course not. That appears to be your position, in light of the recent questions we just heard.

Dr. RIVLIN. I did not get that out of anything that I said, Senator.

Senator GREGG. Well, of course it is. You just essentially said that the reason we have got to address the Medicare Trust Fund to the tune of \$270 billion is because there is \$245 billion of tax cuts. That is the only reason that we have to make that sort of an adjustment.

That is not the reason at all. Your own trustees say that the adjustments in the trust fund that must occur over the next 7 years are somewhere in the vicinity of \$380 billion, if you convert their numbers, the percentages, to dollars. So the point is that those adjustments have to be made to accomplish solvency in the trust fund. This whole shell game of taxes which you folks have been playing is just that. This is not an issue of tax cut versus cutting medicare. This is an issue of getting the Medicare Trust Fund into a solvency position.

Dr. RIVLIN. No; I do not think it is, Senator. The Republican plan does not get the Medicare Trust Fund into a long-run solvency position. We are talking about two problems here, and it is easy to get them mixed up. One problem is that of balancing the budget. We believe the budget must be balanced, but that it can be done more slowly and without the deep cuts in medicare the Republicans are proposing.

The other problem is the question of the long-run solvency of the Medicare Trust Fund. That is going to require major changes in the future. Both budget balancing plans, Republican and Democratic, do not solve that long-run problem.

Instead, they postpone the date at which the trust fund will become insolvent. But for the long-run problem, we have to work out a bipartisan solution.

Senator GREGG. And you expect you are going to promote bipartisanship by coming up here and taking that chart and using it in a dog-and-pony show as the basic reason for us proposing getting the Medicare System under control? Don't be ridiculous.

The fact is that if you want to use that chart correctly, that number would not be \$270 billion that has to be adjusted in order to get the trust fund into solvency. It would be \$385 billion to get it into actuarial solvency over a 25-year period. That was what your own trustees said.

Dr. RIVLIN. We are talking about two different problems here. Senator Exon's chart illustrates that the size of the tax cut in the Republican plan is approximately the size of the medicare cut. And it is certainly true that, from a budgetary point of view, if the tax cut were smaller, it would not be necessary to cut general spending or medicare spending as much.

I do not think that has much to do with the long-run solvency of the trust fund, which is going to be a problem even if we enact the Republican plan.

Senator GREGG. So essentially you are telling us that controlling the rate of growth in costs of the trust fund is not an issue that this Administration intends to address in any time in the near term?

Dr. RIVLIN. That is not——

Senator GREGG. You are going to accept——

Dr. RIVLIN. That is not true at all.

Senator GREGG. You are going to accept the 10 percent rate of growth that the Medicare System is now undergoing.

Dr. RIVLIN. No; you are totally distorting what I said. We have proposed cuts in medicare——

Senator GREGG. Name them?

Dr. RIVLIN. Pardon?

Senator GREGG. Name the cuts that you have proposed in medicare.

Dr. RIVLIN. We have proposed a size of the medicare cuts, and we——

Senator GREGG. No, you have not. You have not come to this—you have proposed adjustments in the Medicare System, which do not represent cuts in medicare.

Dr. RIVLIN. They represent——

Senator GREGG. We will be happy to accept any cuts you want to propose right now. Tell us how you are going to get the \$380 billion adjustment which your own trustees said has to occur in the Medicare Trust Fund in order to get 25-year actuarial solvency. Give us one item that is going to get us a third of that.

Dr. RIVLIN. We have not said that we have a plan for the long-run solvency of the Medicare Trust Fund, nor have you personally, but the Republicans in Congress have not come forth with a plan that would ensure the long-run solvency of the trust fund.

What we are arguing about now is how much, in the next few years, should we reduce the rate of growth of medicare. From the point of view of solving the budget deficit problem, we believe smaller and more moderate cuts in medicare are warranted. The Republicans want to make larger ones. That is a perfectly reasonable thing to argue about, but it does not touch upon the long-run solvency of the trust fund.

Senator GREGG. And on the outlay side, how much smaller are you suggesting on, say, an average over the next 7 years, on an average basis, that those cuts should be?

Dr. RIVLIN. It is a ratio of about 2:1. The Republican cuts are about \$270 billion over a 7-year period, and ours are about half that amount, about \$130 billion.

Senator GREGG. On an outlay basis?

Dr. RIVLIN. On an outlay basis.

Senator GREGG. Using what assumptions? You would not be using assumptions in that event?

Dr. RIVLIN. You have to make assumptions whenever you plan for cuts in the future, but we estimated what our specific cuts would produce in terms of outlay savings. The Republican plan made a similar estimate. You have larger cuts. But even if the Congressional Budget Office scored both plans, I have no reason to believe that the numbers would be different. When it comes to costing cuts, our experience has been that we are just about the same as CBO.

Senator GREGG. Well, the numbers I have are: You are expecting spending in medicare on the outlay side to be 172 in 1996 and then 186, 199, 213, 227, 243, and 260. We are expecting them to be 171, 180, 189, 200, 212, 227, and 244. And that does not work out to anywhere nearly twice the difference. In fact, I average it out—

Dr. RIVLIN. That is because you are starting from a different baseline. I think a more sensible way to do it is to look at what are you expecting to cut, and then compare how you cost out your savings from the cuts, and how we cost out ours. The answer you'll find is that your cuts are about twice as large as ours.

Senator GREGG. Why would it be more sensible to do that than to look at what is actually planned to be spent?

Dr. RIVLIN. Because we are using two different baselines.

Senator GREGG. No; we spend a dollar and you spend a dollar. You are planning to spend \$172 billion; we are planning to spend \$171 billion. Spending.

Dr. RIVLIN. We have a different estimate of the rate of growth of medicare in the future. We are slightly more optimistic; our numbers are slightly smaller. But that does not affect—

Senator GREGG. Well, then that becomes just an assumption issue.

Dr. RIVLIN. These are all assumptions. We are talking about the future.

Senator GREGG. Versus what the actual spending is going to be.

Dr. RIVLIN. We do not know what the actual spending will be, and neither do you. We are all making assumptions, and you are making different ones and comparing apples to oranges. What I am saying is—

Senator GREGG. No, we are not. I am comparing outlays to outlays. Outlays to outlays, pretty hard numbers, probably more accurate, I would think, than assumptions to assumptions on what the rate of growth is going to be. If we are saying how much we are going to spend in actual dollars and you are saying how much you are going to spend in actual dollars, and we are averaging about an \$11 billion difference per year over 7 years, it does not sound to me like it is a 2:1 difference.

Dr. RIVLIN. Maybe we had better sit down with the numbers in front of us, Senator. I think we have a considerable difference here, and what you are saying is that you are assuming a higher rate of growth than we are in the baseline, and therefore, when you take your cuts off the higher baseline, you come up with a certain number. We are assuming a slightly lower rate of growth, and we take our cuts off that lower baseline.

Senator GREGG. I am not assuming cuts off of any baseline. I am assuming what we actually spend, what the outlays are.

Dr. RIVLIN. In 2002?

Senator GREGG. And I think that we are—it does not appear to me that there is a heck of a lot of difference on—well, there is a difference, obviously, and it is substantial in dollars for most folks—for everybody. But in terms overall as a percentage of what is being spent, the difference is less than 5 percent in any given year. And in some years, the first few years, it is actually the same. So, you know, I mean, all this hyperbole about how much we are savaging this activity and how much you are protecting it is, I think, hyperbole. The fact is on outlays we are almost in the same ball park.

Dr. RIVLIN. I respectfully disagree. I think the cuts are different, and they—

Senator GREGG. The cuts are not different because you have not proposed any cuts. You have not proposed any programs to reduce anything.

Dr. RIVLIN. Have you?

Senator GREGG. Yes, we have, and we have got a budget that reflects that. But if you have proposed outlays, then the outlays are essentially the same. So at some point you are going to have to meet your outlay target, and to meet your outlay target, independent of what your assumption of what the rate of growth was, you are going to have to meet that number. That number is the same number we are going to have to meet.

Dr. RIVLIN. Assuming that your assumption about the rate of growth turns out to be correct, that would be true. But we are not assuming that. We think the rate of growth will be somewhat slower.

These are all very big numbers. These programs are growing very rapidly. And so a slight difference in the assumption about how rapidly they grow can make a big difference in what the outlay would otherwise be before the cut in some year like 2002.

Senator GREGG. Well, I think outlays are a pretty hard number on which to work off of versus some of these other numbers, such as how much we are cutting.

Dr. RIVLIN. Outlays are only a hard number after they happen. They are not a hard number in 2002.

Senator GREGG. Well, they are a harder number on a projected 2002 than a projected cut is in 2002 from an arbitrary number. You at least have got a base off which to work which is reasonable, because you had it the year before and you spent it. I am not talking 2002 here. Look at 1996. We are talking about a \$1 billion difference. In 1997 we are talking about a \$6 billion difference. In 1998 we are talking about a \$10 billion difference. In 1999 we are talking about a \$13 billion difference. In 2000 we are talking about a \$15 billion difference. On a base of \$200 billion, \$15 billion is a lot of money, but it is certainly within the margin of error for the Government.

Dr. RIVLIN. If your basic point is that these are very large programs that are growing rapidly and will continue to grow even after cuts are made, then I could not agree more.

Senator GREGG. My point is that these programs, that your proposals—even though you have not made any—the numbers that you are presenting in your budget are not going to be that far from our numbers, and that as a result—

Dr. RIVLIN. Only time will tell, Senator.

Senator GREGG. Well, that is true.

Dr. RIVLIN. And we cannot predict the outcome. We will enact one set of cuts or another and, in the end, we will find out what happens.

Senator GREGG. That is true. But in either scenario, the number that you are targeting in on and the number that we are targeting in on is essentially very close, and there is much more hyperbole here of difference than there is substance of difference of where we are going to actually end up. And that is a function, I guess, of re-election politics. So I guess I have problems when I hear all of this discussion about how horrendous the actions of the Republican Congress are and how genteel and kind are the actions of the Administration in its budget. Because it is not. There is not a whole lot of difference.

I did notice that you were projecting a \$160 billion deficit. Is that right?

Dr. RIVLIN. For this fiscal year, yes.

Senator GREGG. When you came into office, the deficit was projected to be, prior to your arrival, about \$330 billion?

Dr. RIVLIN. Yes.

Senator GREGG. In the summer of 1992, when you were running for office.

Dr. RIVLIN. I think that is about right and at that time, when we projected the deficit for this year, we still thought it would be \$242 billion, even after we put the President's economic plan in place..

Senator GREGG. But when you arrived that summer that the President was running, the projection was I think about 330, was it not?

Dr. RIVLIN. I think it would have been higher than that by now. The deficit for the next year was——

Senator GREGG. No; I am talking about the deficit in the year, in the coming year, was projected to be about—what I am trying to get at——

Dr. RIVLIN. In 1994.

Senator GREGG. Yes, it was about 330.

Dr. RIVLIN. Right.

Senator GREGG. So you have reduced the budget from your perception and in actuality, for which you should be congratulated, from about 330 to about 160?

Dr. RIVLIN. That is right.

Senator GREGG. So when the President said he was going to reduce the budget by half within 4 years, you feel you have met that target?

Dr. RIVLIN. It has not been 4 years yet. But we are very much on track.

Senator GREGG. And 160 would be half; is that your opinion? If you reach 160, you would be below half?

Dr. RIVLIN. Well, if you take what was, at that time, the projected deficit for fiscal 1995, we have cut it by more than half.

Senator GREGG. So you have cut it by more than half.

Dr. RIVLIN. Right.

Senator GREGG. Thank you very much.

Dr. RIVLIN. Thank you.

Senator FRIST. Senator Abraham?

Senator ABRAHAM. Thank you very much.

I apologize because I have not been able to be here earlier. I did watch some of the testimony, and I know you have to leave, so I will be brief. I just have a couple of questions.

I know that this chart over here has been used to suggest that if we did not cut taxes, we would be able to basically eliminate any or almost all proposed reductions in growth in medicare. What would be the practical effect, though, of continuing without any changes within the program? To continue to fund the program at the current level so that there was not any significant change in terms of beneficiaries or providers or anything else? Where would we be in 7 years in terms of the long-term solvency? What would happen in year 8 or 9?

Dr. RIVLIN. If you made no changes in medicare, the trustees predict the fund would be bankrupt in 2002. But we are not proposing that. We are proposing reductions in medicare, and they are not as drastic as the ones the Republicans have proposed. But we do believe that there must be reductions in the rate of growth of medicare.

Senator ABRAHAM. I think that there was an attempt earlier to create an impression, that somehow if we just forewent tax cuts and did nothing else, we could simply maintain the current medicare programs on into the future indefinitely. It seems to me, though, that the practical effect of making no changes in the way the program is funded would just make the crisis greater, as you

suggested earlier, as baby boomers become older and become consumers of these entitlements rather than as providers.

Dr. RIVLIN. We are proposing cuts and reforms in medicare before the baby boomers retire. We believe that is necessary. It contributes to balancing the budget and, more than that, it helps postpone the date at which the trust fund will need more serious attention.

Senator ABRAHAM. So in answer, though, to the point that was made, that somehow if we just forewent tax cuts and used this money, the way I heard your comments, it suggested that that was a plausible course. It would be plausible to accomplish the goal of not reducing spending on medicare, but it would certainly not in any way—in fact, if anything, it would exacerbate the problems the longer we wait to start making changes.

Dr. RIVLIN. I was suggesting neither course, Senator. The chart was Senator Exon's, and he was using it to point out that the Republicans' large tax cut is approximately the size of their medicare cuts, and that is true. The Administration is proposing more moderate, but still very substantial, reductions in medicare spending over the next few years and is also proposing a tax cut that is smaller than the Republican tax cut.

Senator ABRAHAM. Right. Well, I just wanted to clarify because I think there are several options on the table, but it seems to me the one option that is most certain to lead to medicare's bankruptcy is one where we would continue to fund at the full level the program as it currently constituted, and then make no changes within it. That is what I suspect—

Dr. RIVLIN. Right, yes, and the President is not—

Senator ABRAHAM. The natural extension of that chart up there is that we continue funding fully and not make changes. That would be, I think, quite clearly the biggest crisis we could have, would be to just allow that to continue.

Dr. RIVLIN. I am not proposing that, and I do not believe Senator Exon was either.

Senator ABRAHAM. Well, it seemed to me that that was the conclusion one might reach.

Let me just also ask this, and because of the time, I will make this my last set of questions. You indicated that basically these tax cuts in your statement were going to go to people who did not need them. Could you just outline what the Administration's position is as to the definition of people who do not need to see the Government take more of the dollars they earn?

Dr. RIVLIN. The Administration has a child tax credit which goes to families earning under \$60,000 per year and phases out over that. Now, I have no exact definition of who does not need a child tax credit, but I would suggest that for people making \$150,000 or \$175,000, the case is weak. There are not very many people in those income tax brackets.

The Republican tax—

Senator ABRAHAM. Well, you used the expression "largely," and since most people are not making \$150,000 or \$175,000, I just was trying to clarify because you said "largely going to people who do not need them."

Dr. RIVLIN. When you look at the distribution of the Republican tax proposals, the one that goes very heavily to people at the high end of the income scale is the proposed cut in the capital gains tax. Clearly, that cut will go largely to people at the high end of the income scale, because those people have assets and, therefore, capital gains.

Senator ABRAHAM. So they do not need tax cuts. What about people under \$100,000 in income? Do you feel that people who as a family make less than \$100,000 do not need a \$500-per-child tax credit?

Dr. RIVLIN. We phased out our tax cut between \$60,000 and \$75,000, I believe, so that it would be focused on the people who need it most.

Senator ABRAHAM. So if somebody makes \$80,000, they do not need a tax cut, according to the Administration?

Dr. RIVLIN. Tax cuts are expensive, and we believe they should be focused on the people who need them most, that is, people who are struggling while trying to raise young children. Our tax cut goes to low- to moderate-income families with young children.

Senator ABRAHAM. Do you know, are you aware that we passed a resolution in this committee that 90 percent of the benefits of a tax cut would go to families making less than \$100,000 per year?

Dr. RIVLIN. On the family tax cut?

Senator ABRAHAM. No; just in our budget.

Dr. RIVLIN. In general.

Senator ABRAHAM. In our budget resolution.

Dr. RIVLIN. I do not know how you can guarantee that if you are going to have a capital gains tax, because that by its very nature—

Senator ABRAHAM. I am just asking if you were aware that this committee—I think by about a 16–2 vote—had made that.

Dr. RIVLIN. I am glad to hear that.

Senator ABRAHAM. Well, I just wondered because when you made your testimony and suggested that the tax cut we were talking about would largely go to people who did not need it, I wondered if you were aware of that position that we had taken.

Dr. RIVLIN. I am told the amendment was stricken in conference, so it does not have a lot of force now. But I am very glad this committee did it.

Senator ABRAHAM. I think it was a reflection of where this committee was.

Dr. RIVLIN. I am very glad to hear that, Senator.

Senator ABRAHAM. Well, let me just ask one last thing. I guess the point I am making is that I think that there is a tendency to somehow believe that all the money that is earned and generated and all the income in this country somehow belongs to the Federal Government, and then somehow whatever the Federal Government allows people to keep, almost as if it is a gift from Washington—

Dr. RIVLIN. You never heard me say that, Senator.

Senator ABRAHAM. We saw a chart here in this committee not too long ago that had exactly that language on it, that we were providing gifts to people.

Dr. RIVLIN. Well, why don't you stick to what I have said, because I am the current witness. I cannot be responsible for other people's charts.

Senator ABRAHAM. Well, that is what I am trying to do, because when you said the people who do not need it, I guess I take exception. There are a lot of people in my State where two-earner families are trying to make ends meet. Maybe one is a teacher, the other works as an auto worker, and together they make a little more than \$70,000 or \$75,000. I would have a very hard time going back and telling them that they do not need a tax cut.

I think one of the things that we have tended to do here in Congress is to get into this kind of class warfare debate in a way that hurts the hard-working middle class. At least in my State it does. And so I just wanted to go on record personally as saying I want to find out, you know, what constituted the people the Administration feels do not need a tax cut, because at least most people in my State sort of think they do.

I do not have any more questions.

Dr. RIVLIN. Well, most people do need a tax cut, Senator, because most people do not have incomes in that high a range.

Senator FRIST. Thank you.

Dr. Rivlin, let's try to finish in the next several minutes. You have been mighty patient today, which we all appreciate.

I want to go back briefly, though, again, to not very much rhetoric but how we can get to the numbers that you have presented and that we are striving for to preserve medicare over time, looking at issues of reform, how we can truly reform the system to arrive at what is necessary to achieve long-term solvency of a program which is cherished and treasured by our senior citizens and individuals with disabilities.

In a document that your staff gave to our committee staff in June, when they briefed us on the President's new proposal, there are several figures and the Administration proposes to save, for example, \$78.9 billion over 7 years from Part A, \$20.4 billion over 7 years from Part B, and \$28.3 billion from extending current policies that are expiring.

Are you familiar with that document? It is a document that they handed us.

Dr. RIVLIN. It sounds familiar. But I think we have updated those numbers in the Mid-Session Review.

Senator FRIST. Let me just comment on a couple so I can have these figures to work with over the next several weeks. On the document it says that there is \$28 billion in savings from medicare extenders from the President's budget. Does that sound about right?

Dr. RIVLIN. That is about right.

Senator FRIST. Then in the budget from January, the January budget presented by the President, there is an entry there to extend supplementary medical insurance premiums at 25 percent of cost, and that would save about \$5 billion over 5 years in the January budget. Is this proposal part of the new proposal?

Dr. RIVLIN. We are not changing our February budget with respect to specifics like that.

Senator FRIST. You are not?

Dr. RIVLIN. No; I think we should sit down and go through how the numbers have changed, and I cannot give you that here because of the re-estimates.

Senator FRIST. But that would be a change from current law, the 25 percent figure?

Dr. RIVLIN. Right.

Senator FRIST. But that is a change in the current law that would affect beneficiaries on down the line, but affect them in a very direct way. Is that not right?

Dr. RIVLIN. I think I had really better go back and look at this and supply the answer for the record, because I am not as familiar with the details of the medicare proposal as I should be.

Senator FRIST. Right, and I know that things are moving fast. But I guess the questions that I would like to help me deal with your earlier statement that we are mainly after the providers and not after the beneficiaries, because when I look at the numbers in the plan that came initially in the January budget, it looks like it does affect the beneficiaries. So I guess the questions are—

Dr. RIVLIN. We had no new proposals that would affect the beneficiaries. The extenders do to some extent.

Senator FRIST. OK, so it does affect the beneficiaries. But I guess the questions for the record later, is this proposal in January part of the new plan? Is that a change from current law? I believe the answer to that is yes. But does that change from current law in effect, actually affect beneficiaries in a very direct way? And, last, if so, that would seemingly contradict the statement that the plan on the table now does not affect beneficiaries, it only affects providers?

Again, we can go through—

Dr. RIVLIN. That statement was with respect to the additional savings that we were proposing in June, savings not included in the February budget. The February budget did have the extenders in it.

Senator FRIST. The January, February budget, which is part of the current plan that is on the table, does affect beneficiaries in a direct way, but the new changes added to June do not affect beneficiaries. But the plan on the table then does affect beneficiaries.

Dr. RIVLIN. In a minor way, yes.

Senator FRIST. With that, again, it is late. I think much of our discussion today has been on medicare. I would like to state once again that, unless we all act together in a bipartisan way—and I know sometimes it does not sound like that today on both sides of the aisle—unless we do something in the next 7 years, the Medicare Part A Trust Fund will go bankrupt. The plan that we have on the table, if that is the case, accomplishing the slowed spending from 10 percent down to 6.4 percent, will assure the solvency in 7 years to medicare. We still have to address the fundamental issues of reforming the Medicare System to improve it for the long-term solvency.

I think the other issue that has become clear are the tax cuts, and we keep coming back to that because that is what we hear every day, all day long, not so much in your testimony, which you pointed out, though it is mentioned there, but the tax cut issue is totally different from the medicare solvency issue. And those two

figures happen to be roughly the same amount. But we arrived in this committee at a figure to preserve medicare totally independent of the tax cuts. I think that needs to be clear for the American people. As you have said, it is two different issues.

Then, last, just again for senior citizens listening and people here today listening, under the current plan that has come out of conference that the Republicans have put forth, we are going to increase spending in our Medicare Program, again, tax cuts, when I talk to—or cuts, when I talk to people back in Tennessee, are very different than cuts here in Washington, DC. Fundamentally, the Republican plan increases spending from \$4,800 per beneficiary this year to about \$6,700 in the year 2002. The debate can be is that enough or not, but we are not truly cutting how many dollars we are spending on medicare.

Do you have a final statement at all?

Dr. RIVLIN. Well, I think this much has to be clear. You are absolutely right, no one is saying we will be spending less on medicare in the future. The question is: How rapidly are the costs per beneficiary going to go up? And there is a legitimate argument about how much can you cut without cutting drastically into services. That is what we need to talk about.

Senator FRIST. The final statement is that we are continuing to spend in our plan 6.4 percent more next year than this year and the year after that than the previous year. The question is: Is that enough?

Dr. RIVLIN. Is that enough?

Senator FRIST. With that, thank you. Thank you for your patience. We stand adjourned.

[Whereupon, at 12:36 p.m., the committee was adjourned.]

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